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TRIGGER MECHANISM OF THE GRAMM-RUDMAN-HOLLINGS ACT

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89

HEARING

BEFORE THE

COMMITTEE ON GOVERNMENT OPERATIONS HOUSE OF REPRESENTATIVES

NINETY-NINTH CONGRESS

SECOND SESSION

JULY 24, 1986

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TRIGGER MECHANISM OF GRAMM-RUDMAN-HOLLINGS ACT

THURSDAY, JULY 24, 1986

House of Representatives,
Committee on Government Operations,
Washington, DC.

The committee met, pursuant to notice, at 10:10 a.m., in room 2154, Rayburn House Office Building, Hon. Jack Brooks (chairman of the committee) presiding.

Present: Representatives Jack Brooks, John Conyers, Jr., Cardiss Collins, Glenn English, Henry A. Waxman, Ted Weiss, Mike Synar, Stephen L. Neal, Doug Barnard, Jr., Barney Frank, Robert E. Wise, Jr., Barbara Boxer, Sander M. Levin, Edolphus Towns, John M. Spratt, Jr., Joe Kolter, Gerald D. Kleczka, Frank Horton, Thomas N. Kindness, Robert S. Walker, William F. Clinger, Jr., Alfred A. (Al) McCandless, Larry E. Craig, Howard C. Nielson, Patrick L. Swindall, Thomas D. (Tom) DeLay, Joseph J. DioGuardi, Richard K. Armey, Jim Lightfoot, John R. Miller, and Beau Boulter.

Also present: William M. Jones, general counsel; Robert Brink and Donna Fossum, professional staff members; Lynne Higginbotham and Marilyn Jarvis, staff members; Stephen M. Daniels, minority staff director and counsel; and Alexander B. Cook, minority professional staff.

OPENING STATEMENT OF CHAIRMAN BROOKS

Mr. Brooks. The committee will come to order.

Today's hearing has been called to examine the trigger mechanism in the Gramm-Rudman-Hollings law. Because of the extreme difficulty of crafting an automatic deficit-cutting mechanism without permanently delegating core congressional responsibilities to the President, controversy has always centered on this portion of the law.

The original trigger mechanism required that the Congressional Budget Office and the Office of Management and Budget independently estimate the size of the deficit. It then gave the Comptroller General the power to determine how much each Federal program would have to be cut to meet the deficit target and direct the President to issue a sequestration order making these cuts. Concern over the constitutionality of this mechanism—I said it was unconstitutional the first time they ran it out and tried to beat it in the conference—at any rate, it led to the inclusion of a fallback procedure in the original law, because they even realized that they were doing something that was cockamamie. The fallback procedure would require Congress to determine how much each of the Federal programs would have to be cut by passing a joint resolution after CBO and OMB submitted the data that would then have to be signed by the President.

Two weeks ago the Supreme Court declared, with unbelievable clarity, more or less, that the involvement of the Comptroller General in the trigger mechanism was unconstitutional. In so doing, the Supreme Court activated the fallback procedures, which place the burden of making the cuts squarely on the shoulders of Congress.

Last week proposed legislation was surfaced by the authors of the original Gramm-Rudman-Hollings law that would again place the responsibility for making the budget cuts on somebody other than the Congress. This proposal would reactivate much of the original trigger mechanism, but give the OMB ultimate power to determine where cuts would be made. While such a proposal may cure the constitutional defect in this law, it would also vest the entire triggering power within the Executive—a move that even many ardent supporters of the Gramm-Rudman-Hollings law opposed during the original debate on the bill. This goes to the delegation of constitutional powers of the Congress to the Executive.

If the Gramm-Rudman-Hollings law had followed the usual course of legislation, it would have been referred to this committee for consideration. But because it was tacked on as an amendment to last year's debt ceiling bill, no legislative hearings were ever held on the original act prior to its arrival in conference. Since Congress is again in the process of considering legislation to raise the debt ceiling, it is possible that efforts will again be made to bypass the normal legislative process to change the current trigger mechanism.

Due to the importance and the urgency of this matter—the Senate is now discussing some of these proposals—I have convened this hearing of the full Committee on Government Operations so that we can thoroughly examine the trigger mechanism in this law and determine what is at stake if it is changed.

So that everyone has a chance to get the answers to their questions, I would hope that the members will restrict their questioning to 5 minutes each, and I will now yield to the ranking Republican, Mr. Horton.

Mr. HORTON. Thank you, Mr. Chairman.

The Gramm-Rudman-Hollings law poses many difficult problems for our Nation's government and economy.

We all know that continued large Federal budget deficits lead to a bigger Federal debt and an ever-increasing interest payment on that debt. Money spent on interest cannot be spent constructively on either defense or domestic programs. We should therefore reduce those payments to a minimum.

On the other hand, as we have learned in Legislation and National Security Subcommittee hearings, projected fiscal year 1987 deficits could lead to substantial Gramm-Rudman sequestrations. According to the Comptroller General and the Director of the Congressional Budget Office, those budget cuts could severely hamper the ability of Government agencies to perform their missions, including the legislature. According to private economists—and we heard some of them yesterday—the cuts could have very detrimental effects on the economy.

Gramm-Rudman-Hollings turns out to be something we can't live without, but we can't live with, either.

This morning we turn to one particular aspect of the law; that is, how to make the triggering mechanism work in a way which meets the Supreme Court's test of constitutionality. The law as already enacted contains a permissible triggering mechanism, of course—Congress, acting on the recommendation of a Temporary Joint Committee, can pass a joint resolution setting the anticipated budget deficit for the coming fiscal year. If that deficit is larger than the target for the year, sequestration must take effect unless Congress makes sufficient budget cuts by other means. I look forward to hearing from our witnesses this morning and am interested as to whether, in their judgment, that mechanism is appropriate or should be improved.

I would also like to mention at the outset my view that one of the alternatives which was mentioned should not receive further consideration. And I don't think it will. There was some talk that one option was to make the Comptroller General of the United States subject to dismissal by the President and, therefore, by the Court's logic, capable of performing executive functions like pulling the Gramm-Rudman trigger.

While the Comptroller General has traditionally performed functions which may be likened to the work of all three branches of government, his most important mission is auditing Federal programs and agencies. Most of his audits are performed for the Congress. To make the Comptroller General subject to Presidential control would sacrifice this critical work for a relatively minor and short-term goal. It would clearly be a mistake. In our deliberations on the Gramm-Rudman-Hollings trigger mechanism, we should keep in mind the necessity of preserving the Comptroller General's essential work for the legislative branch of the Government and we should not make any changes—and I emphasize we should make no changes with regard to the Comptroller General's authority and the work that he does.

Mr. Chairman, I join with you in welcoming our colleague, Hon. Bill Gray, chairman of the Budget Committee, and also Mr. Bowsher, and later the Director of the Office of Management and Budget, Mr. James Miller.

Mr. **Brooks**. Thank you very much.

I would like to say that I think you can quit worrying about them trying to change the legal responsibility of the GAO from the Congress to the Executive. One of the authors of this infamous bill called me from the other body and told me the other morning that he had had a long talk with Mr. Bowsher, he and the Senator's running mate, and they felt that it would be a little difficult under the circumstances to change the Comptroller General's authority, and so they gave up on trying to do so. That is why they came up with this new proposal.

Now I will recognize a member of this committee, the chairman of one of our finest subcommittees, a young man from Oklahoma who has done a good job in this area by handling the lawsuit along with others that proved the unconstitutionality of this foolish utilization of the GAO. I recognize Mr. Synar from Oklahoma.

Mr. **Synar**. Thank you, Jack. It was your leadership that caused me to go that far, so I appreciate all your help, too.

Ladies and gentlemen, the Supreme Court has said in no uncertain terms that Gramm-Rudman is unconstitutional. It also said that the fallback position does pass constitutional muster. The fallback requires us to vote. We are willing to make those votes, as our affirmation of the March cuts shows. Some, however, do not want to vote which, for an elected official is like a doctor retreating from healing the sick. Fundamentally we are elected to make those choices, and we cannot run from them.

Next, let us not get tied up in gimmicks. Let's stay out of the courts. The latest proposal basically would have OMB determine where the final cuts are. First, if OMB's powers are truly limited, as its proponents claim, then this is merely a fig leaf to the naked unconstitutionality of the initial Gramm-Rudman statute, and we haven't advanced an inch in getting a statute the Supreme Court will be happy with.

If, on the other hand, we are giving OMB broad authority to decide when and how much to cut, then this Congress will do well to remember Mr. Stockman's recent book in which he described one of the most politicized agencies in government, in which arithmetic and accounting were as grounded in reality as medieval alchemy. For Congress to turn its authority over to this agency would be like turning the FBI over to the Cosa Nostra.

Mr. Chairman, I am ready to vote. Let's get on with it.

Mr. **Brooks**. Thank you very much.

Our first witness this morning is William H. Gray III, Congressman from Pennsylvania, the esteemed chairman of the House Budget Committee. We are honored to have you with us this morning, Chairman Gray, and we look forward to your testimony.

STATEMENT OF HON. WILLIAM H. GRAY III, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF PENNSYLVANIA, ACCOMPANIED BY PATRICIA QUEALY, CHIEF COUNSEL, BUDGET COMMITTEE

Mr. **Gray**. Thank you, Chairman Brooks. And to the members of this distinguished committee, I am delighted to have the opportunity to particpate in these hearings on the issue of Gramm-Rudman, and the entire question of how will we deal with the trigger mechanism.

First of all, let me introduce the counsel of the Budget Committee, Ms. Pat Quealy, who is with me this morning, seated at the table.

I believe that a copy of my testimony has been given to the committee, and each member should have a full detailed copy of that testimony of several pages.

Mr. **Brooks**. It will be made a part of the record in full, Mr. Gray, and you can proceed as you see fit.

Mr. **Gray**. Thank you, Mr. Chairman.

I will not read from my testimony. Instead, Mr. Chairman, in the interest of time, knowing the need for questions from the members of the committee, and knowing that you also have other persons testifying today, what I will do is summarize my thoughts on several subjects: One, the fiscal year 1986 sequestration after the Supreme Court ruling. Two, the fallback procedures for fiscal year 1987. Third, I will also comment on Gramm-Rudman II and how to deal with the Court decision with regard to the trigger, what should be our position, and then finally the issue of the economic realities that we are facing at this time.

First of all, I think everyone knows that I was not a supporter of Gramm-Rudman. I do not believe that we can afford to take the "look, ma, no hands" approach to running the Government and trying to put it on automatic pilot, and that there will be no grand executioner, no fairy godmother or philospher king who can stand in for us. Essentially I believe that is what the Supreme Court said, that we cannot delegate our responsibilities to someone else.

Therefore, when that decision was made, we were faced with the issue of dealing with the March 1, 1986, sequester of $11.7 billion. The way we responded, Mr. Chairman, was essentially that the Joint Committee pursuant to the backup procedure was immediately formed. It met and reported the 1986 sequester order pursuant to the fallback provisions in Gramm-Rudman, and then the two legislative bodies were required to vote on that sequester order. Due to technical corrections and subsequent legislation since the original CBO and OMB report was submitted at the beginning of the year, both bodies were therefore required to pass a modified sequestration order reaffirming essentially the status quo.

For many who felt it was very difficult and painful to vote for cuts of nearly $12 billion, we tried to point out that if we did not restore the status quo, we would be adding about $20 billion to the deficit in fiscal year 1987. Thus, if you did not like cutting about $5 billion and $5 billion from defense and domestic, you would be faced with cutting an additional $10 billion out of domestic and $10 billion out of national security in 1987 as a result of the carryover from 1986.

I think the process worked. The Joint Committee meeting lasted less than 15 minutes. Both bodies overwhelmingly reaffirmed the status quo and reapplied the sequester order of March 1.

Now, let me turn my attention to the fallback procedures for fiscal year 1987. On August 15, there will be a snapshot taken of the economy and OMB and CBO will issue a joint report stating whether or not we have achieved $144 billion deficit target with a $10 billion cushion. I suspect that that report will show that we have not, simply because we have not had sufficient time to implement the 1987 budget.

However, from that snapshot and from the decisions made on the 1987 budget, we will be able to determine exactly how far over we are, in terms of the Gramm-Rudman target of $144 billion. There will be another snapshot taken at the beginning of October and we will have a very short period of time to respond to it.

When Congress reconvenes from its August recess, the Joint Committee would then officially receive the OMB/CBO report based upon the August 15 snapshot. The Joint Committee will then report a joint resolution setting forth the contents of that report, as required by Gramm-Rudman under the fallback procedures. Congress would be required to vote on the report of the Joint Committee and, if adopted, it would be sent to the President for his signature.

That is a summary of the fallback procedures for fiscal year 1987. Of course, Congress could reject the Joint Committee proposal or the President could veto it and then we would be at square one.

Let me comment quickly——

Mr. **Brooks**. Mr. Chairman?

Mr. **Gray**. Yes.

Mr. **Brooks**. When the OMB and the CBO take their snapshots on the 15th, do they not submit it to the Joint Budget Committee?

Mr. **Gray**. That is correct.

Mr. **Brooks**. And you are required to take an average of those or do you have some flexibility in the implementation?

Mr. **Gray**. No, it will not be our responsibility to take the average. The average will be a part of the report.

Mr. **Brooks**. It will already be averaged and they submit it jointly?

Mr. **Gray**. Yes; it will be the Joint Committee's responsibility to receive the report. That report will specify what the cuts should be based on the overage. Therefore, if the report states the deficit will be $12 billion over the $144 billion target OMB and CBO will have already averaged any differences to reach that number.

The report would set forth reductions in order to comply with Gramm-Rudman, 50 percent from defense, 50 percent from domestic, minus those sheltered programs in Gramm-Rudman. The required amount of the cut would be shown percentagewise.

The Joint Committee would then draw up the joint resolution with those cuts in it and then present it to the two legislative bodies for approval. That is the way the fallback provision works.

So eventually, it would be the Members of the House and the Senate who would vote on the sequester order.

Let me turn my attention briefly, if I might, Mr. Chairman, to the question of Gramm-Rudman II, as it is known, which is the attempt by some to repair the trigger mechanism that was declared unconstitutional. The argument is that there must be an absolute firm, hard wall of sequestration and that that is the best approach possible and that should be done by some other mechanism, other than the fallback procedure.

I have tremendous concerns over the Senate proposal to turn the trigger over to OMB. If OMB is constrained by the legislation—let me—if OMB is given this responsibility, there are some serious questions.

First, will the roll of the OMB Director be strictly ministerial where he just takes the report and hands it to the President? And if so, does that raise not some constitutional questions all over again? And if not, if it is not a ministerial role, if the OMB Director has flexibility to shift and move funds and to change priorities—and we already know that there have been such instances. At one point, we lost track of about $6 billion in defense money which had to be discovered by someone else—then will we not be handing over the prerogatives under the Constitution given to the legislative body—the Congress, the House and the Senate—to set national priorities?

And it would seem to me this last concern is a very serious one, in light of the bipartisan support demonstrated this year in the budget process, Mr. Chairman and colleagues, by the House and the Republican controlled Senate to reject the priorities of the administration. So thus, even though both bodies have clearly rejected in the budget process this year, the priorities of the administration and of the OMB Director, we might be putting back into the OMB Director's hands the ability to reestablish those same priorities that all of us bipartisanly disagreed with.

I seriously question the wisdom of that approach. And I think it would be folly, to say the least, to follow that approach because again it is looking for an easy way out. Look, Ma, no hands. I did not do it to you. It was that nasty gentleman over there, at OMB, named Jim Miller.

I do not think that that is the appropriate way and I think that those concerns have not been adequately answered for me by the Gramm-Rudman II solution.

Therefore, I tend to favor very strongly, until someone can show me a better mechanism, the fallback procedures where Members of Congress have to do exactly what they were sent here to do. And that is to vote, to show where they stand, and to make the hard, painful decisions and cut out some of the rhetoric and do it.

Therefore, I tend to favor, as the trigger, not OMB's finger pulling it, not someone else pulling it, but collectively the fingers of the House and the Senate making those tough decisions. That is what we were sent here for. And I think basically the Gramm-Rudman II approach is a faulty one that raises serious constitutional questions, in terms of the role of the OMB Director, as well as the Congress giving away its legislative authority to set priorities, particulary when we know the Congress—in the last—in this year especially, but also last year—bipartisanly rejected the policies of the administration.

Finally, let me conclude, Mr. Chairman and colleagues, by talking about some of the economic realities we face. One of the reasons why I opposed Gramm-Rudman was because of its inflexibility in dealing with changing economic circumstances. With the hard fixed targets, $144 billion, $109 billion, $72 billion, et cetera, there was no real provision made for the changing moods of our economy, which Congress certainly does not control.

I said that in December, when I voted against Gramm-Rudman. And now it appears that those words are becoming a reality. In May we announced that, as we looked at economic growth the anticipated rosy scenario was not taking place. Economic growth was going to be very sluggish, far below even the realism of the CBO figures that we used this year, and greatly below the OMB economic assumptions.

And as a result, there would be a loss of revenues and therefore an increase in the deficit.

Gramm-Rudman cannot provide an answer for all of our problems because of its inflexibility in dealing with economic circumstances, factors beyond Congress' control. And I submit to this body that I suspect that despite all of our hard work in developing a budget, even if we implement every iota of that budget, because of the failed fiscal policies that have led to sluggish economic growth, in essence, Mr. Chairman and colleagues, I think that there is a very good chance that there is going to be a sequester—not because of anything Congress did or did not do, but primarily because economic growth has not been all that it was predicted.

And therefore, I suspect that one of the glaring faults of Gramm-Rudman will come out. And I would hope that Members would understand the reason for any loss of revenue, the reason for sequester. It will not be necessarily because of anything that the Congress has done. It is just that we do not control the $3 plus trillion economy and all the worldwide factors that do have an impact upon our estimates, our assumptions, and what the deficit will be, and also what will happen under Gramm-Rudman.

Thank you, Mr. Chairman. I will be glad to answer any of your questions.

[The prepared statement of Mr. Gray follows:]

The Honorable William H. Gray, III
Testimony Before the Committee on Government Operations
July 24, 1986

I appreciate Chairman Brooks inviting me to testify before the Committee on Government Operations on the impact of the recent Supreme Court decision on Gramm-Rudman.

Automatic Sequestration Versus the Fall-Back Procedures

As you know, I voted against Gramm-Rudman last year. I believed then, as I do now, that Congress is elected to decide which programs are worthy of funding and which are not. The automatic sequestration process that was at the heart of Gramm-Rudman represents to me an abdication of congressional responsibility and accountability: it took a "look, no hands" approach to making hard budget choices.

In contrast, the fall-back procedure that requires Congress to vote on budget cuts, as we did in reaffirming the 1986 sequestration last week, forces us back into reality: we must take responsibility after all. No philosopher king, grand executioner, or fairy godmother can stand in for us.

I believe that Members of Congress should see and feel the consequences of their decisions. For this reason, I tend to find the fall-back position more appropriate than an automatic triggering mechanism that tempts us to hide behind a subterfuge and abdicate Congressional decision-making. It leaves much to be desired in terms of setting priorities--which is why Gramm-Rudman is fundamentally a bad law--but it at least makes us accountable for our actions.

Indeed, I have serious concerns about the Gramm-Rudman "fixes" that the bill's original sponsors are now proposing in "Gramm-Rudman-Hollings II". They would have the OMB Director replace the Comptroller General as the ultimate grand executioner and fairy godmother. OMB and CBO would estimate the deficit and compute any required cuts, which would be reviewed by the Comptroller General, as under the original law. The Comptroller General, then, would forward it to OMB for a final determination. One sponsor has said that OMB's function would be "just a green-eyeshade calculation". Another has noted that OMB would inevitably have some discretion in projecting the deficit and allocating cuts.

The role of OMB is critical. If OMB's role is purely ministerial, the constitutionality of the law could be questioned on the same grounds on which it was successfully challenged--the role of GAO in executing the law. If, however, OMB is not just making a "green-eyeshade" calculation, then we need to be concerned about the accuracy of the estimates and, especially, the direction of its policies. Past performance does not augur well. Recall the "rosy scenario" of 1981 or, more recently, the $10 billion "mistake" in estimating defense outlays for fiscal year 1987. Does Congress really wish to give more power to an administration that apparently cares little about reducing the deficit and brought us $200 billion "deficits as far as the eye can see" in the first place?

There are troubling institutional questions here that go to the heart of our system of government. The Wall Street Journal ran an editorial on Monday, July 21, arguing that the logic of an automatic Gramm-Rudman process is leading us inexorably towards the line-item veto. "The emerging consensus", they write, "is that Congress is no longer capable of exercising the power of the purse..., nor does it wish to exercise that power." In their view, when the Gramm-Rudman-Rube Goldberg machine falls apart, the line-item veto "will be the only proposal on the table."

I have no quarrel with the logic of this argument, but I do reject the premise--that Congress cannot do what it was elected to do. Congress can and should exercise its constitutional powers with respect to fiscal policy. If we do not, those powers will be exercised by others--in the executive branch. As the Journal notes, the logic of an automatic Gramm-Rudman law is the logic of the line-item veto, the logic of a transfer of power from Congress to the President. I do not favor such a transfer, nor, I believe, do most Members of the Congress. But we need to understand the implications of our actions before we rush forward to embrace a fairy godmother whose charms may rapidly wither after November.

Let me now take a few moments to summarize how Congress has implemented the fall-back procedure for the fiscal year 1986 reductions, the possible actions with respect to fiscal year 1987 sequestration, and some deficit problems which Gramm-Rudman cannot cure.

Current Status of the Triggering Mechanism and the Supreme Court Decision

Section 274(f) of the Balanced Budget and Emergency Deficit Control Act of 1985 provides that, in the event that any of the reporting procedures under that law are invalidated, there is established a Temporary Joint Committee on Deficit Reduction (TJC), consisting of the entire membership of the House and Senate Budget Committees. The temporary committee then becomes the conduit for transmittal of the sequestration report to the President.

As you are aware, when the Supreme Court struck down GAO's role in calculating Gramm-Rudman sequestration figures, the "fallback procedure" was automatically triggered. The fallback procedure: (1) establishes the Temporary Joint Committee on Deficit Reduction, composed of the two Budget Committees and co-chaired by their chairmen; and (2) requires the TJC to report a joint resolution setting forth the contents of the joint OMB/CBO report. If passed by both Houses and signed by the President, the sequestrations become law. The Supreme Court's decision provided that its judgment, restoring monies sequestered in fiscal year 1986, was stayed for a period of not to exceed 60 days in order to permit Congress to implement the fallback provisions of the Act.

Congressional Action on the Fiscal Year 1986 Cuts

On July 17, 1986, the TJC met to report a joint resolution setting forth the contents of the joint CBO/OMB sequestration report of January 15, 1986. Pursuant to the Gramm-Rudman law, the TJC could not amend the report. However, due to the fact that the CBO/OMB report of January 15 contained some technical errors and conceptual disputes, using the fallback provision in its pure sense would not satisfy Congress' objective of reaffirming fiscal year 1986 sequestration actions. These were resolved by the GAO in its report of January 20.

In order to account for technical changes made by the General Accounting Office report (which served as the basis for the President's February 1 sequestration order) and policy changes affecting sequestration enacted since February 1, a separate measure outside the scope of the TJC's powers had to be considered. The joint House Leadership worked with the Senate Leadership to develop an approach modifying the fallback procedures to take into account the special situation caused by the triggering of the fallback procedures in the middle of the 1986 sequestration cycle. As a result of those discussions, a simple one-sentence statement reaffirming all actions necessary to reinstate the status quo was developed.

On the same day that the TJC reported a resolution fulfilling its duty under Gramm-Rudman, the House adopted H.J. Res. 672, which reaffirmed the President's sequestration order of February 1 (including GAO's technical changes) and measures enacted since February 1, which affected that order. The Senate passed H.J. Res. 672 by a voice vote. This shows that Congress can act quickly in a bipartisan manner when a consensus is reached on how best to address the deficit problem.

Fiscal Year 1987 Process

Due to the District Work Period scheduled to begin on August 15, the timetable for the 1987 sequestration process cannot follow that set forth in the Gramm-Rudman law.

CBO and OMB will take their first snapshot on August 15 to determine if the projected deficit for fiscal year 1987 will exceed the maximum deficit amount of $144 billion by more than $10 billion. Under the Gramm-Rudman timetable, their report will be transmitted to Congress on August 20, but Congress will not be in session to officially receive and refer the report to the TJC. The TJC will officially receive such report on the first day Congress reconvenes. After receipt, the TJC will have five calendar days to report the joint resolution setting forth the contents of the CBO/OMB report and Congress would vote on such joint resolution within five legislative days after it was reported.

It should be noted that a problem with the 1987 report similar to the one for 1986 could arise if there are errors or omissions in the joint report of the Directors. Since amendments are prohibited, either by the TJC or on the floor, any corrections or modifications would have to be addressed through other legislative means. This year, we adopted a correcting resolution to the joint resolution to account for technical corrections and modifications.

Assuming the President signs the joint resolution, he would then issue a sequestration order, if any were required, based upon the CBO/OMB report. This would occur after the September 1 date on which the President is to issue his order according to the timetable set forth in the law.

On October 1, the initial order takes effect. By October 5, OMB and CBO issue a revised report to reflect final congressional action. If the revised report projects a fiscal year 1987 deficit in excess of the Gramm-Rudman requirement, the same process described above for the initial order would have to be followed for the final order as well, i.e., TJC action, congressional action, and presidential signature. At that point, the final order, based on the revised report, would be effective.

Under this timetable, the month of September would be set aside for a congressional response to the sequestration order. Gramm-Rudman sets forth procedures for formulation of an alternative congressional deficit reduction plan in the Senate. In essence, the Senate Budget Committee could initiate a mini-reconciliation process in the Senate. The law is silent on House procedures, although it is assumed that a House response could be coordinated through the Leadership and the Budget Committee.

Fixed Deficit Targets in a Changing World

Irrespective of the sequestration procedures we ultimately adopt to deal with the deficit, I want to reiterate the difficulties inherent in budgeting for fixed deficit targets in a changing world.

After months of effort and negotiation, we passed a budget resolution that meets the 1987 deficit target. We did this without any help or leadership from the Reagan administration. Indeed, the administration thwarted congressional efforts to restore greater long-term fiscal balance by raising additional revenues. Our original approach would have reduced the deficit further below the target of $144 billion, affording a larger margin of error when the August 15 CBO/OMB snapshot is taken. However, we could not assume revenues that the President said he would veto, so we adopted a resolution with a deficit of $142.6 billion, just below the target.

However, passage of this resolution does not guarantee that sequestration will not occur. It is important that the reasons for this be understood.

First, the budget resolution is a blueprint of tax and spending decisions, but only a blueprint. The deficit-reduction policies must now be implemented through legislation designed by the appropriate committees, passed by Congress, and signed by the President.

Second, the OMB and CBO spending and deficit projections will depend upon technical factors largely unrelated to congressional spending decisions. For instance, in the last several years annual budget outlays for agricultural support policies have exceeded prior estimates by as much as $12 billion, principally as a result of weather and economic conditions, and there are new reports of further overruns of administration estimates. In the current fiscal year, defense outlays are running about $5 billion or more above earlier projections, without any increase in spending authority, simply as a result of the timing of actual spending by the Pentagon. Gramm-Rudman makes no allowance for spending fluctuations of this kind--fluctuations which can raise the deficit projections by billions.

Finally, and most important, the Gramm-Rudman projections are hostages to economic changes that cannot be accurately forecast, let alone controlled. A normal forecasting error of one percent for the economic growth rate can throw off the 1987 revenue and deficit projections by $15-$20 billion; when compounded with inevitable errors in forecasting inflation and interest rates, the potential for error overwhelms any mid-course policy adjustments that would be possible or wise. In this respect, Gramm-Rudman is inherently flawed. It pretends these economic fluctuations don't exist. When I opposed Gramm-Rudman last year, I characterized this as the "Tinker Bell approach" to fiscal policy. Shut your eyes, clap three times, chant the magic deficit targets, and the economy will do your bidding.

As such fiscal fantasies give way to the hard facts of economic life, we may face some tough decisions. Inflation is down sharply from earlier projections. This is good news for the economy and the Nation, but bad news for the budget in the short term, since revenues fall off faster than spending. Economists have been revising down their forecasts of growth in response to a string of indicators of sluggish activity. The Federal Reserve Board in its recent Monetary Policy Report to Congress revised down its growth estimates for 1986 to 2½-3 percent. Previously, it had forecast 3-3½ percent growth, and the administration had projected 4-4½ percent. The preliminary estimate of real GNP growth in the second quarter was a disappointing 1.1 percent, despite lower oil prices and interest rates. This lower growth suggests that the 1987 deficit which CBO and OMB will project in August will be larger than now estimated in the budget resolution.

We may thus be faced with some very difficult choices in the coming months, but in my view that is why we were elected to Congress. The budget process and the legislative process impose clear fiscal policy responsibilities which must be met. Congress has passed a budget which sets overall fiscal policy consistent with Gramm-Rudman. Now, we must implement specific measures consistent with that policy. We should not allow the Gramm-Rudman sequestration procedures to be triggered because of congressional failure to implement the budget resolution.

However, if the budget deficit should rise simply because of low inflation and weakness in the U.S. and world economies--a weakness related to earlier irresponsible U.S. fiscal policies--we need to understand that the problem lies, not in a failed legislative process, but in the make-believe structure of Gramm-Rudman.

Thank you very much, Mr. Chairman. That concludes my testimony.

Mr. **Brooks**. Thank you, Chairman Gray. I want to tell you that the Legislation and National Security Subcommittee of this committee had a meeting yesterday morning and heard from the chief economists of Chase Econometrics, Merrill Lynch, and Dun Bradstreet about the condition of our Nation's economy. And when you all have had a good light lunch, I want you to read that testimony, afterwards, because it points out that, in their judgment, on August 15, if we meet every one of our budget targets, as you recommended and as you noted, Mr. Gray, there could still be a substantial shortfall. And it is not in the range of $15 to $17 billion, but in the range of $30 to $40 billion.

So I would like you to take a look at those statements.

I have just been informed that copies of the statements of the three economists are available in your portfolios now. I think you will find them fascinating reading. It is going to shock you. It means that September is going to be fascinating for the Members of this body.

Now I have got a couple of questions for you, Mr. Gray.

What would be the likely impact of an 1987 sequestration?

Mr. **Gray**. The likely impact of an 1987 sequestration? I am not sure exactly to your meaning, but essentially what it would mean is that the Joint Committee would have to meet—if there was no other trigger process—report out a resolution dealing with the overage.

It is my estimation, after having conversations with CBO, and CBO is a little more optimistic than some of the private econometric forecasting agencies, that there is a potential clearly for $20 to $25 billion, even if we are able to implement everything in the 1987 budget, which I think really is a testament to the failed economic policies that have been portrayed somehow as providing great growth in America.

It is just not happening. So essentially what we are talking about is the potential of a large sequestration order, as the Associate Director of CBO shared with the Budget Committee yesterday afternoon.

Mr. **Brooks**. What would that do to the agencies, if that type of a sequestration were required? How would that affect the agencies?

Mr. **Gray**. It would be a 50-50 reduction, domestic and defense, exempting those programs that are sheltered. You are probably looking at between 12 to 15 percent across-the-board cut on every other program.

Mr. **Brooks**. Under the fallback procedure, can Congress enact any set of cuts other than those which are the average of the cuts reported by the Directors of OMB and CBO when they submit the report to the Joint Committee?

Mr. **Gray**. No; Gramm-Rudman prohibits the Joint Committee from amending the sequestration report from CBO and OMB. Floor amendments are also prohibited.

Mr. **Brooks**. What alternate means does Congress have to achieve the deficit reduction requirements of Gramm-Rudman other than the automatic sequestration process?

Mr. **Gray**. If Congress does not like the across-the-board approach of sequestration, 50-50, and let's say the 12 to 15 percent minus the sheltered programs, then Congress can pass its regular budget legislation. We can devise a legislative vehicle such as a reconciliation vehicle, which would incorporate legislation to achieve, by making other selections and other priorities, the required reduction of whatever the specific amount would be.

Mr. **Brooks**. Proposals have been made to remove funds such as the highway trust fund, administrative funds of financial protection institutions such as the FDIC and FSLIC, and other nonappropriated funds from the sequestration process and to set them aside on the grounds that they should be treated differently from budget accounts. What would be the effect of such action if those were set aside and taken off the budget?

Mr. **Gray**. First, it would further reduce the base subject to sequestration, thereby increasing the across-the-board cuts in the remaining areas. Additionally, there is a strong equity argument against exempting the popular programs while allowing the less popular programs to be reduced even more.

Mr. **Brooks**. Ultimately, Mr. Gray, if this scenario runs out, as I think it will in August and September, do you think it would be desirable to allow the Gramm-Rudman-Hollings sequestration order to be amended by the Temporary Joint Committee on Deficit Reduction by permitting it to report a single nonamendable alternative to the currently required report of the averages of the CBO and OMB figures?

Mr. **Gray**. Yes, Mr. Chairman.

Mr. **Brooks**. Maybe not this year but ultimately? Isn't that what the next step is going to have to be?

Mr. **Gray**. Yes; as was evidenced with the fiscal year 1986 reaffirmation of the sequester order of March 1. It may be necessary to correct or modify for technical reasons the joint CBO/OMB report.

Mr. **Brooks**. Do you think it would be preferable to make a straightforward readjustment of the figures rather than just to cook the early numbers?

Mr. **Gray**. Yes.

Mr. **Brooks**. That is one of the alternatives, as you know. You can cook the estimates, say it is going to be a 5-percent growth rate next year and the tooth fairy is going to come tonight, too.

Mr. **Gray**. I would say that is one of the problems of the entire process. You have put your finger on it, Mr. Chairman. What happens if the OMB/CBO report on August 15 says even if we implement everything, we are $20 billion or $30 billion over? Using the average, if I might, between those who testified before your committee and the CBO yesterday. Let's do a little averaging here. We will say $30 billion.

Mr. **Brooks**. That would scare the hell out of everybody.

Mr. **Gray**. If we have to get $30 billion and the Joint Committee reports a sequester order and Congress passes it, $15 billion from defense, $15 billion from domestic programs. It is sent to the President and he signs it and it becomes the law.

There is nothing to prevent CBO or OMB from saying to us in January, sorry, gals and guys, we made a mistake in our estimating and averaging and as we are doing the economic assumptions for the fiscal year 1988 budget, it is going to be higher. Thus, even after you implemented the sequester, you may not hit the $144 billion target come January when it is time for us to put together the economic assumptions which form the base for the fiscal year 1988 budget.

What could happen is you think that by implementing sequestration in October you will hit the $144 billion target, by cutting that $30 billion, and you feel relieved. Next you say now we have to go from $144 billion to $109 billion according to the deficit targets of Gramm-Rudman, which are still constitutional, still legal. Then in January—let's say CBO didn't cook the figures, Mr. Chairman, let's say they just made a mistake.

Mr. **Brooks**. Reevaluated.

Mr. **Gray**. They reevaluated and found that there were some August discrepancies and therefore as a result they say, it is not $144 billion now, it is $160 billion—add another $15 billion. Then what you have to do is go from $160 billion to $109 billion. That increase of $15 billion or $16 billion may not have occurred because of anything that Members of Congress did, through increased spending beyond the budget and the sequester order, it may be because the economy is slipping, failing, and despite all the rhetoric from downtown about rosy scenarios, the reality is that we don't have strong economic growth and thus, what you will be faced with is any mistakes made in August will come back and haunt you in January.

Mr. **Brooks**. Mr. Horton?

Mr. **Horton**. Thank you, Mr. Chairman. I want to join with you in welcoming our colleague, Mr. Gray, the chairman of the Budget Committee. We are appreciative of your testimony on this very important matter.

This is a complicated process. I know a lot of people don't understand it. I think it is important for the Members to understand it and the public to understand as much as they can about the process.

I served on the conference committee last year. I recall we went through about 2 or 3 weeks where it was just the case of testimony after testimony, just so the Members of the House and Senate could understand what was involved with Gramm-Rudman. It wasn't until really the second conference and after the bill was proposed that we could really make any sense out of it as we did.

Of course, we had the testing of the constitutionality problem. Now we find ourselves in another situation regarding the trigger, the trigger mechanism and what might happen.

One of the things that you were talking to Mr. Brooks about that intrigues me is the comment you made with regard to the so-called carryover. What you are saying is if we meet the budget requirement of the deficit of $144 billion or less, or if we do have to go through a sequestration process of whatever amount, we still have to face what the actual figures are going to be. If those actual figures are more than what has been provided for in the sequestration or provided for in the budget to meet the $144 billion deficit, what you are saying there is then a carryover into the next year.

Would it be advisable to prevent that carryover in order to try to meet those goals? In other words, if the budget deficit were not met by either sequestration or by the budget process, if you did not meet that goal, just leave it hanging for that particular year and then go to the other year without having the burden of carrying it over? I understand what was intended to meet the zero through the 5-year period.

As you point out, some factors over which we have no control could affect it. I might point out we could have favorable factors, too, if the revenue increased, we might find ourselves in a better situation.

Would it be helpful to restrict that carryover so it wouldn't have to impact on the following year?

Mr. **Gray**. Mr. Horton, I don't know how you would restrict that carryover. It would become a part of your base for your budget for the following year.

Mr. **Horton**. It could be added to the deficit just like any other prior to Gramm-Rudman.

Mr. **Gray**. It gets carried over automatically. There is a way to deal with the problem which you are addressing. You just can't say we are going to leave this money behind in 1986 and forget about it in 1987 as if it never happened. It gets carried over automatically.

You can do what our colleague, Dave Obey, was suggesting, if you remember during the Gramm-Rudman process, which is how do we deal with the fluctuations of the economy up or down, decline or good news, higher growth than expected. The only way you can have the carryover adjustment, Congressman Horton, is to provide for an aggregate total that moves up or down.

In other words, if the economy is bad and the deficit is going up, not because of anything Congress is doing but just because of poor economic growth, then instead of hitting $144 billion or $109 billion, you would say if there is $10 billion that can be attributed to a lack of economic growth, then you slide it to $119 billion. On the other hand, suppose we suddenly and rather miraculously find great economic growth that exceeds the CBO estimate of 3.5 and jumps to 5 percent and suddenly you have yourself an additional $25 billion coming in in revenues. Then the $109 billion could be shifted down by $25 billion.

That would be the way that you could in the process, as I understand it, deal with the problem that you are suggesting, where Congress is confronted with slow economic growth or high economic growth that would produce either greater revenues or lower revenues. The way you could adjust for that is by allowing a floating target rather than a fixed hard target.

That concept was taken into consideration slightly by the conferees on Gramm-Rudman because they didn't fix a hard $144 billion. If you remember, they said $144 billion up to $154 billion. You had a sliding range but it wasn't totally flexible to take into consideration for the problem.

Mr. **Armey**. Would the gentleman yield?

Mr. **Horton**. Yes.

Mr. **Armey**. What margin or leeway do we have?

Mr. **Gray**. $10 billion.

Mr. **Armey**. Does that figure hold all the way down in each of the targets, or does that compress as you go down to lower levels?

Mr. **Gray**. The question is, Does that $10 billion hold for each of the other targets? In other words, for the $109 billion, is there a $10 billion safety margin?

Mr. **Armey**. Yes.

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Mr. **Gray**. Yes.

Mr. **Armey**. Always, at each stage, we have the $10 billion?

Mr. **Gray**. You have a cushion of $10 billion. As I understand it, that was basically the compromise to the whole issue of how do you deal with the fluctuations.

Mr. **Brooks**. You know if you only go over by $9 billion, you are free. If you go over by $11 billion, you have to sequester all $11 billion.

Mr. **Gray**. Mr. Chairman, may I also add, there is another problem with that cushion that should be pointed out. In 1991, you must hit zero. Therefore, the cushion catches up with you. It may help you in 1986, 1987, 1988, 1989, 1990, but it comes due in 1991. It was a compromise, Congressman Horton, to the question of dealing with the fluctuations of the economy.

Mr. **Horton**. We have a rollcall. I have some other questions. Maybe I can finish before we go.

You did indicate that you are not very happy about the Gramm-Rudman-Hollings II proposal. Do you feel, assuming that does not become law, that the fallback provisions can be met by way of the timetable that is scheduled?

Mr. **Gray**. It is difficult because we have a recess in August, but we can meet it, I believe, by the October deadline and that is the one that really counts.

Mr. **Horton**. As I understand your testimony to Mr. Brooks, and I wanted to ask about this, you have no discretion whatsoever with regard to those figures. As I understand, OMB and CBO submit figures. Those figures, the average, would be presented to the Joint Committee. The Joint Committee would be the House Budget Committee and the Senate Budget Committee. Is that correct?

Mr. **Gray**. That is correct.

Mr. **Horton**. Those figures would then be presented to that Joint Committee which is provided for in the legislation. As I understand it, you have no discretion. You have to take that average and present it to the House and Senate for our votes. Is that correct?

Mr. **Gray**. That is correct.

Mr. **Horton**. That would be sent down and the President would have to sign it. Is that correct?

Mr. **Gray**. Yes. That is correct.

Mr. **Horton**. There is another important question I wanted to ask. I know the reconciliation process is going on now. Do you feel we can in the time that we have available to us before the October date adopt a budget which will meet the $144 billion deficit target?

Mr. **Gray**. Yes, I do. I think it will be tough. It will be hard work. There are going to be painful choices. Of course, it is not going to be easy. I basically feel we can. I think we have to.

Mr. **Horton**. Thank you, Mr. Chairman.

Mr. **Brooks**. Thank you. We have a vote right now. Because we have a few more questions for you, would it be possible for you to come back?

Mr. **Gray**. I would be glad to, Mr. Chairman.

Mr. **Brooks**. Then we will have Mr. Charles Bowsher and his associates, Mr. Socolar and Mr. Havens. We will probably have to come back after lunch and hear Mr. Miller.

Right now I would like to take this opportunity to introduce Ms. Nicholson, who is chairwoman of the Public Accounts Committee of the Parliament of Canada sitting in the front row in a green dress. She handles the money.

[Applause.]

Mr. Brooks. We will recess until the conclusion of this vote.

[Brief recess.]

Mr. Brooks. The committee will reconvene, and the Chair recognizes the gentlewoman from Chicago, IL.

Mrs. Collins. Thank you, Mr. Chairman.

Let me add my welcome and appreciation to our colleague, Chairman Gray, for appearing before us this morning. We all know the fine job that he has done as chairman of that Budget Committee.

One of the things that I'm very concerned about, Mr. Gray, as you very well know, is the privileged programs that we had all discussed some time ago. I believe you mentioned in your testimony that those programs will be held as they are, even if there are budget reductions due to sequestration; is that not correct?

Mr. Gray. Yes, Mrs. Collins. If there is a sequester order, the programs that were shielded and protected under Gramm-Rudman would not be affected by the cuts, as stipulated in that law.

Mrs. Collins. Now there are some 10 or 11 of those programs, right?

Mr. Gray. If my memory serves me correctly, I think there are eight that were totally exempt, and then we had a group of others that we put in category 1(a), and those were health programs, such as Medicare and veterans' health, which are treated differently from the programs that would be cut.

In the second category, Mrs. Collins, knowing of your concern for health issues, those programs would be limited to a reduction of no more than 2 percent, no matter what the—let's say if it was 12 percent for every other program, they would be 2 percent.

Mrs. Collins. I was wondering if there is even another level, or perhaps within the category of health, for other programs that we are interested in, such as food inspections and so forth. Would those fall within that second category?

Mr. Gray. No; they do not fall within the second category. They would be subject to the full sequester percentage.

Mrs. Collins. For a couple of days now, there has been a great deal of discussion on television about the fact that there are a lot of near misses of airplanes going into O'Hare Airport in Chicago.

One of the things that concerns me, of course, is that there was much discussion about the need to have an increase in the number of air traffic controllers.

Now I can't help but wonder, since the economy is down and there is, in every likelihood, going to be a vote on sequestration, how that is going to affect the possibility of us keeping our airplanes from running into each other. Additionally, there are other issues similar such as that.

The FBI, for example. We all know about the crime that all countries have. I am wondering about those very important public security measures. How much will they be cut under this Gramm-Rudman?

Mr. **Gray**. The two that you mention, FAA controllers as well as the Justice Department, would receive the full percentage cut, whatever the specification would be. If it were 12 percent, they would receive a 12-percent reduction; if it were 15, they would receive a 15-percent reduction. They are not protected or sheltered as the programs that I mentioned such as Social Security and those health care programs that are in the 1(a) category. They would be subject to the full sequester amount percentage, whatever it would be.

The gentlewoman is absolutely correct. Her memory of the Congress' action, and also because of her concerns, we significantly increased the moneys available in the fiscal year 1987 budget for FAA controllers because of safety factors. However, it would still be subject to the full sequestration percentage, whatever that may be.

The same result would occur with the Justice Department. Even though in the House-passed budget, which the gentlewoman was a strong supporter of on both the issues of controllers and fighting crime and drugs, we gave a significant increase to the Justice Department to fight drugs since it is not protected, it would be subject to the full sequester.

Mrs. **Collins**. Thank you very much, Mr. Chairman. I have no further questions.

Mr. **Brooks**. Mr. Clinger?

Mr. **Clinger**. Thank you, Mr. Chairman.

I would just like to add my words of welcome to my fellow Pennsylvanian, the chairman of the Budget Committee, Mr. Gray, and I'm sorry I was not here when you presented your testimony, Mr. Chairman—and if this has been answered, please tell me—but my question is, how would the Temporary Joint Committee reconcile differences between projections made by OMB and CBO?

Do you have the discretion, such as I understand GAO had, to make your own projections, or is it simply a question of averaging the differences?

Mr. **Gray**. Mr. Clinger, it is a question of averaging the differences.

Mr. **Clinger**. So there is no independent discretion within the Joint Committee to do anything with that.

Mr. **Gray**. No, it is an average. And, of course, you know, one of the concerns that some of us have is that Ms. Rosy Scenario could reappear on the budgetary dance floor by someone saying, "Well, our reestimate is way up here," and thus you would have one with a much more pessimistic viewpoint and one with a very rosy viewpoint, and that pulls your average one way or another.

Mr. **Clinger**. So what you're suggesting is that some very fancy politics could be played.

Mr. **Gray**. There is a great potential for that to occur. As I pointed out last year when we were debating Gramm-Rudman and some of the problem areas, I don't know of any President who ever had an OMB Director who was pessimistic about economic growth, where we were going in the economy, unless reality just hit. They were not pessimistic ahead of time. They don't tend to want to forecast and prophesy a pox upon their own house. This has nothing to do with the present occupant of the White House; I think it's probably been pretty true of every occupant.

Mr. CLINGER. One of the things that I have been interested in for a long time is this question of what would be the impact if we were to have a capital budget. As you know, under the present budgetary process, we have a unified budget which includes all expenditures, both for operating expenses and for capital investment. This means that we show in the budget in any given year the full amount expended for capital improvement, even though that money is spent out over a longer period of time and, indeed, the worth of that long outlasts the time that it is expended, so that in my view, at least, there is some distortion in our budget. There can perhaps be more of a justification for borrowing money for capital expenditures as opposed to operating expenditures.

I wondered if the Budget Committee—and this may be an unfair question—had given any thought to whether moving toward a capital budget would help under Gramm-Rudman?

Mr. GRAY. Mr. Clinger, in the report accompanying our budget resolution for fiscal year 1986, there is an appendix that reflects a capital budget. Currently, the Budget Committee is looking at that issue and the committee with jurisdiction over the budget process in the House is looking at it. That's the Rules Committee.

However, there are some problems, as you well know. One, what do you define as capital? Education? And that's where people often get into wide disagreement as to what should be categorized as what and where.

Second, there is no assurance that simply going to a capital budget will make the process easier in terms of dealing with the deficits that we have. But the Budget Committee is looking at that. In fact, in the appendix of the fiscal year 1986 budget, there is displayed a capital budget. And I know that the Rules Committee, which has the primary jurisdiction over the budget process in the House, has a task force that is looking at the possible conversion to a capital budget and how we can improve and more accurately reflect what's going on in terms of all the Federal accounts, spending, and financial involvement.

Mr. CLINGER. Thank you very much, Bill.

Thank you, Mr. Chairman.

Mr. BROOKS. Mr. Synar?

Mr. SYNAR. No questions.

Mr. BROOKS. Mr. Weiss?

Mr. WEISS. Thank you very much, Mr. Chairman.

I do want to add my word of welcome to our distinguished colleague, the chairman of the Budget Committee.

I just want to say by way of preface that I would like to think that the Congress will consider not only how to cure the infirmities of the Gramm-Rudman legislation, but as to whether, in fact, it is in the best interests of this country to have the Gramm-Rudman legislation on the books. As far as I am concerned, it is a great menace to the well-being of the Nation.

To have a great nation such as the United States be in a straitjacket on major domestic and international matters on a self-imposed basis just doesn't make any sense, and the gentlewoman from Illinois provided some of the examples. I heard the Secretary of State the other day in his testimony before the Senate talk about how we needed to provide resources to the front-line states bordering South Africa, and he said, "It will take money, but we don't have it." What do you mean we don't have it? In fact, it's in the national security interests of the United States. How can we not have it? Because of Gramm-Rudman.

The concern that I want to address, though, is not just that straitjacket aspect. But you've sort of touched on the economic consequences of Gramm-Rudman.

It seems to me that the people who proposed Gramm-Rudman think that they also repealed the laws of economics when they adopted that legislation. Here we have, got, according to the testimony given to the chairman and his subcommittee the other day, a situation where we have at least a sluggish economy and the projections are perhaps for a modest recession. Instead of thinking about countercyclical programs to help us get out of that recession, as is the normal course, we are talking about self-imposed massive additional cuts which run the risk of turning that moderate recession into a major depression.

Now you had suggested, Mr. Chairman, that maybe that could be cured by way of the Obey provisions, but those are not part of the legislation. Are you suggesting that before we move forward with this bill that there may be, at the very least, some way of incorporating some of those economic concerns that were expressed by the Obey amendments last year?

Mr. **Gray**. I would say to the distinguished gentleman from New York, Mr. Weiss, that I would certainly support a modification that reflects the changing moods of the economy, which Congress has no control over, and even though no one else may be saying it right now, I'm willing to bet you that by September or October, every Member of this House and the Senate will want something like that, because they will be having to vote to make reductions through no fault of their own, not because they voted for increased spending, but because of an economy that does not have significant economic growth. And I think that is a potential that the Congress should consider.

Mr. **Weiss**. You had addressed, in a response to a question, I think, from Mr. Horton earlier, that you thought that it was possible to make sufficient cuts to achieve a balance. But I assume that that was setting aside the economic projections and the economic adverse effects which may take place.

Would you try to project for us what you see happening if, in fact, the projections that CBO, as well as the private economic forecasters, are making come true? What does that do to your capacity to maintain pace with the mandated cuts of Gramm-Rudman?

Mr. **Gray**. Mr. Weiss, it means that I cannot maintain pace with the targets, unless you are going to be willing, unless the Congress is going to be willing to make very significant changes of policy in major programs in order to come up with the money, or unless somehow the Congress, with the consent of the President, is going to come up with an alternative that will include revenues.

Mr. Weiss, I think one of the major problem is that we've been living under a myth, which, you know, has gained widespread popularity over the last few years, and that myth is that you can cut your way out of $200 billion deficits.

Now we might have been able to cut our way out of $30, $40, and $50 billion deficits. But $200-plus billion deficits? I don't believe it can be done. And even if you fix these rigid targets, let me tell you what's involved.

Unless Members of Congress want to vote to go into the Social Security trust fund—I'm not talking about COLA's—but go into the trust fund, which I don't think I see too much delight and excitement about, that's $200 billion; unless you're willing to go into—I'm not talking about restrain the growth of, administrative changes, but major changes in Medicare, that's $100 billion.

How many Members of Congress—Democrats, Republicans—are prepared to really cut defense? I'm not talking about freeze it; I'm not talking about inflation. I'm talking about a 5-percent real cut, 10, 15 percent; that's $280 billion.

And I think all of us recognize that you've got to pay your debts, your interest on the national debt. Add about another 150.

Then how many Members of Congress, House or Senate, Democrats or Republicans, are prepared to go into the black lung account—not increase, but into the meat? How many are prepared to go into the railroad retirement, military retirement, Federal employees retirement programs—not increases, not COLA's, but the meat?

When you add what I just described up, you're talking about nearly $800 billion.

What was the budget, ladies and gentlemen? The budget was $995 billion. All you have left—all you have left for all the social programs, all the human investment programs like education, all you have left for capital investment programs like transportation and agriculture, is $195 billion.

If we got rid of it all tomorrow, you'd still have $35 to $45 billion deficit according to most experts. And I don't know anybody here who, in their right mind, believes that you're going to find 218 votes or 51 votes to get rid of it all.

Then the next question becomes, how many of you believe that you are going to find $40 or $50 billion out of that pot of $200 billion next January, and then come back the following January, if the economy does everything you hope it's going to do, and find another 50, another 50, another 50 to get to the balance?

That's basically the myth we've allowed ourselves to indulge in. I think what you've seen in the last 2 years is tremendous fiscal restraint by the legislative body, last year bipartisan cuts in spending, which we thought was $54 billion. CBO reestimated it at $38 billion, and you ought to read the report of CBO. I know there are a lot of people who like to walk around Capitol Hill poo-pooing, you know, and denying the parentage of their own children and the things that they bring into the world, but CBO said that that was a darn good job of restraint. In fact, it was even more than the 1981-82 Reagan revolution cuts.

Then we came back this year, did it again. Now how much more can you get out of that 195? We probably can squeeze some more, but if you think you're going to squeeze down to zero out of it, unless you're prepared to go into defense—and I'm not talking about freeze—real cut—unless you're prepared to go into the Social Security trust fund—not COLA's, but real money, $30 billion—then I think it's going to be very, very difficult.

Gramm-Rudman, even though it doesn't specify that you've got to do it all by cuts; you could do revenues or asset sales or user fees, et cetera—but I think what we're doing is, Gramm-Rudman is somehow based, if you listen to the authors as I've listened to them over the last 8 months on talk shows which I've appeared with some of them on or in audiences, basically the prime author of that piece of legislation really still believes that you can cut your way out of it, and I think that that is a mistaken notion.

Mr. **WEISS**. Well, I thank you very much, Mr. Chairman. Thank you for that very realistic assessment.

Mr. **BROOKS**. Mr. McCandless? The gentleman is recognized.

Mr. **McCANDLESS**. Thank you, Mr. Chairman.

Mr. Chairman, I appreciate your appearing here today and I think that you are really trying to do a job and philosophically we may have some difference of opinion, but I respect what it is that you have been trying to do this last year.

The problem I have is I came from a level of government that had to balance the budget, so I find this never-never land of Washington a little difficult to cope with because departments would tell us that we just cannot survive without having a certain amount of money in the budget and that the world was going to come to an end. It never seemed to come to an end. It seemed to bring out the better part of the management process to get along with what they had, but provide a higher level of service. End of editorial.

Getting back to the purpose for which we are talking here, the sequestration process, as I understand the law, would take place or is to take place—or however you wish to say it—under two sets of circumstances. One, as you have outlined in your comments, where the estimated income is less than that the budgetary process used in making its budget up and submitting it to—in this case—Congress.

We have threatened sequester in order to make up the difference, which you have gone into great detail to explain to us. That sequester is based upon an August 15 window but the sequester does not take place—if my memory serves me right—until September 1?

Mr. **GRAY**. The actual deadline is October.

Mr. **McCANDLESS**. October 1, yes.

Mr. **GRAY**. When we have got to close the window.

Mr. **McCANDLESS**. But is there not a date between August 15 and October 1 that something has to happen?

Mr. **GRAY**. There is an initial order issued by the President on September 1. Is that what you are referring to?

Mr. **McCANDLESS**. Yes, I think that is it.

Then let us make a couple of assumptions for purposes of our discussion and say all right, we have a sluggish economy or whatever you wish to call the current set of circumstances, which is not going to produce the estimated income upon which the budget derived its figures. That, then, certainly does not prevent the budgetary process from being revisited and those priorities necessary established by those who are responsible for establishing those priorities for the governing body—at least the recommendations—and then the governing body does and then submitting a revised or modified budget to conform to the August 15 window.

Is that——

Mr. **Gray**. Mr. McCandless, you are absolutely right. Gramm-Rudman does not preclude a congressional response to avoid sequestration, so between the snapshots and the deadline, which would be in early October, Congress could do—as you are suggesting—what we formerly used to do in the budget process, known as a second budget resolution, where we would go back and readjust all of the functions in order to achieve the target.

Mr. **McCandless**. Now the second set of circumstances would be only if the budgetary process were unsuccessful or unable to arrive at a conclusion during the year in which it had its responsibility and therefore sequestering needs to take place because the budgetary process was not completed. Is that correct? Those would be the two sets of circumstances under which sequestering would take place?

Mr. **Gray**. If we do not reduce the baseline due to legislation or through economic factors, such as the snapshot lo and behold could come back and tell us the economy has taken off at 5 percent and you do not have to do anything. We are way below 144.

Those would be the two circumstances.

Mr. **McCandless**. Now the continuing resolution is the crutch by which Congress continues to function without a budget. And so if we did not have a budget and we had a continuing resolution, then the continuing resolution would be the basis upon which the sequester would take place. Do I understand correctly?

Mr. **Gray**. The reductions would then be from the continuing resolution, if there was a need, and if the continuing resolution as signed into law still did not meet the target.

Mr. **McCandless**. So separating our political philosophy or our personal thoughts and ideas from the process itself——

Mr. **Gray**. Could I interrupt the distinguished gentleman for a moment?

Mr. **McCandless**. Yes.

Mr. **Gray**. There is, I think, a belief—and I know that you did not state this, but I just want to make it clear, that it is not only the continuing resolution which provides spending. There are a lot of other programs on our books, entitlement programs, which would also have to be looked at in order to achieve the target.

In other words, what I want to just simply say—and I know the gentleman did not raise this point, but I want to just make it clear—a continuing resolution does not provide the total answer to what Congress is doing.

Mr. **McCandless**. I understand. Then separating out the politics of the issue, which is virtually impossible to do, and looking at it from an academic point of view. The Congress, through the Budget Committee and its resources, has the ability to modify a budget that meets the window prior to the triggering date of sequestration?

Mr. **Gray**. The gentleman is absolutely correct. Congress can provide a response to sequestration to meet the goal.

Mr. McCandless. One other editorial, Mr. Chairman, having spent quite a bit of time prior to the July break in my district—which is capital intensive, as far as investments is concerned—I will throw this out, that there are many, many people who control many, many billions of dollars whose position currently is to sit on their hands and wait and see what the final tax bill is actually going to be. And I do not know if these economists of yours brought this up or not, but it is a very salient point in what I consider to be the sluggishness of our economy and one of the reasons for it.

Thank you, Mr. Chairman.

Mr. Gray. If I might comment, our economists in the Budget Committee have been looking at what the potential impacts would be once there is a final tax reform bill. We have not been able to make any intelligent guesstimates on that, but it could have a significant impact.

Mr. McCandless. We forget, because we are so intense here, but this all started almost 18 months ago with what they referred to as Treasury I. And as we progress through these events that have transpired, each person has been affected or could be affected and therefore, in my opinion, has withdrawn to a degree.

Mr. Gray. I think the gentleman is absolutely right. There has not been investment due to the uncertainty of what is going to happen on the tax side, how much that plays in the sluggish economy.

Mr. Brooks. Thank you. I will now recognize Mr. Synar from Oklahoma who will ask you some questions and then we will leave to make that vote for all of us. When we come back after the vote we will hear from Mr. Bowsher. We are grateful to you for coming today, Chairman Gray.

Mr. Synar. Thank you, Bill, for coming today.

Let me go through these numbers real quick, so everybody is very clear. There are four parts to the budget and could you give me the percentages for each one? Entitlements make up about 47 percent?

Mr. Gray. That sounds about right.

Mr. Synar. Defense about 27 to 30?

Mr. Gray. That is about right.

Mr. Synar. Interest about 13 to 15?

Mr. Gray. That is about right.

Mr. Synar. And nondefense discretionary about 17 to 20?

Mr. Gray. That sounds in the ballpark.

Mr. Synar. And what you told Mr. Weiss is in that nondefense discretionary, where most of those cuts will have to occur, we have a base of around $195 billion in that category, right?

Mr. Gray. That is about right, maybe a little less than that.

Mr. Synar. And under Gramm-Rudman we exempted about $80 billion of that, so we got to a $109 billion figure, right?

Mr. Gray. The gentleman is correct. I did not mention that, but he is absolutely right. So you would have to reduce the base by about the exempted amount.

Mr. Synar. So under the Gramm-Rudman formula, on a 50-50 split, if we have a $40 billion sequester, $20 billion of that $109 billion will come from domestic programs and the rest will come out of defense, right?

Mr. **Gray**. Yes, $20 billion would come out of the defense base.

Mr. **Synar**. So what we are seeing here is that the seed corn for the human programs and our Government are the first things to be cut and they are not cut, they are savaged, really because of the exemptions in other areas, such as interest, entitlements, Social Security, and other things?

Mr. **Gray**. I think there would be those who would make that judgment.

Mr. **Synar**. And so my final question to you is that if these types of decisions have to be made—and as you can see from that chart, those are hard choices—it better be us who make them on behalf of the public versus an OMB Director who is not accountable to anyone?

Mr. **Gray**. I would agree with you, Mr. Synar. Particularly look at the farm economy. Look at what is happening out there in rural agricultural America. This Congress may not want to have an across-the-board reduction at this particular moment, to a specific priority, whereas they might say rather than hit this program, let us do a double hit on this program over here, which—even though we do not like it, it is not as critical a priority as what is happening in our farm economy.

Mr. **Synar**. Thank you, Mr. Chairman.

Mr. **Brooks**. Gentleman, Mr. Gray, would you be willing to answer a question from Mr. Boulter or should he submit that question to you? And did you have a question you wanted to ask, Mr. Wise? Then that will be the last question to you, Mr. Gray, and we will then recess.

Mr. **Gray**. Are you sure? I will be more than happy to stay.

Mr. **Brooks**. Give him the question.

Mr. **Boulter**. In view of the time, I just want to make one point, if I may, that I consider it a privilege serving with you on the Budget Committee and I think you know that. I believe that Congress should exercise its duty and I support Gramm-Rudman but it just seems to me, when we go through a congressional budget resolution, reconciliation, appropriations, then have another 60 days after the August snapshot, that we are given all sorts of opportunity to do our duty. And the one that that process does not provide is certainty.

And that is why I favor some trigger. But we can talk about that. I do thank you.

Mr. **Gray**. Let me just say to the distinguished gentleman who does serve on the Budget Committee with distinction, that I did agree to an earlier question that we can do our responsibility in the time limit. My only concern about—I think the automatic brick wall ought to be us, I guess I am saying. It is not different from what you are saying.

You are saying there needs to be an automatic brick wall and I guess the only thing I am saying is who is the brick wall? And I think it ought to be the Members of Congress because until it is Members of Congress, we do not have to face the reality of our decisions. We do not face the consequences of the legislation we support because, as Mr. McCandless pointed out, I think we are all in favor of a balanced budget. We may argue about how to get there, what choices you make in order to get there.

And my explanation to Mr. Weiss about the various aspects of the budget and trying to cut your way out was not necessarily to be taken as being against a balanced budget or expressing that that was the only way.

But I would agree with the gentleman, we need a wall. I just simply say we ought to raise it ourselves.

Mr. **Wise**. Would the gentleman yield?

I just want to make one observation. We look to you not to find the red brick wall, but the yellow brick road.

Mr. **Gray**. The yellow brick road. That is a good one. I have to keep that one in mind.

Mr. **Brooks**. We thank you. We are grateful to you again, Mr. Gray, for your time and contribution to this hearing. We will recess until the vote is over and come back to hear from Mr. Bowsher.

[Recess.]

Mr. **Brooks**. The committee will come to order.

Our next witness is Mr. Charles A. Bowsher, the distinguished Comptroller General of the United States, accompanied by his Special Assistant, Milton Socolar, and Harry Havens, Assistant Comptroller General.

You are a great team and we are delighted to have you. We appreciate your waiting and apologize for it. We appreciate your contribution to the hearing and this general effort to bring reason to the Federal Government.

STATEMENT OF CHARLES A. BOWSHER, COMPTROLLER GENERAL OF THE UNITED STATES, ACCOMPANIED BY MILTON J. SOCOLAR, SPECIAL ASSISTANT TO THE COMPTROLLER GENERAL, AND HARRY S. HAVENS, ASSISTANT COMPTROLLER GENERAL

Mr. **Bowsher**. Thank you very much, Mr. Chairman.

Rather than read my statement, which we would like to submit for the record, I would just summarize it here by stating that the Supreme Court's decision has taken the GAO out of the Gramm-Rudman process, as it was originally envisioned, in this automatic trigger mechanism. We can still play the role, as we historically do, in advising Congress and in reviewing the numbers in any way that the congressional people wish us to do.

I think that you are now facing a decision here that has been discussed this morning, and that is whether to go to the fallback position, as provided in the original legislation and as the Court provided for in their decision, or to move to a new or modified automatic trigger mechanism.

The Gramm-Rudman II is a new one that has been proposed, that we testified on yesterday in the Senate. And it would have various features, which would include the GAO reviewing the CBO/OMB report and reporting on it, but then passing it on over to OMB who would really play the role that we were supposed to play in the original legislation.

We told the Senate yesterday, and we will say the same today to you, that we recommend the fallback position as the best way to proceed with these issues. We recognize that the fallback position does not have an automatic trigger mechanism in it, but we do be-

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lieve that it would be better for the Congress to make the decisions. Also, with the numbers that we are looking at here, on the economic forecast now, I think it would be good if the Congress saw those numbers before making any final decision on the sequester method. And that is our main concern.

We pointed out to the Senate yesterday that if they do go forward with Gramm-Rudman II that there are a couple of technical changes that we think need to be made. One would be that we would not have to do all the calculations on all the accounts, the PPA [program, project, and activity] structure, as we did in the original legislation. It would be much more appropriate for OMB to do that, because that goes with the final order.

At one point in time, they were thinking of having us play some additional roles, but apparently those are now no longer being considered. I would like to just speak, for a moment, to the change that was being contemplated at one time, to change the 1921 act, so that we could remain as the automatic trigger mechanism. We came out very strongly against that. We believe that our statutory base ought to remain the same. It has worked for 65 years. We do not believe that that change should be made.

And I also appreciate very much the support that we got from the leadership, both Republican and Democratic, on this issue. And yesterday, at the Senate hearings, why even Gramm and Rudman said that they had heard everyone on that issue and that they were not proposing that any more, in any way, shape, or form.

So I think, Mr. Chairman, that summarizes most of the major issues that we have in our testimony, in our prepared statement. And we would be prepared to take any questions that you and any other members of the committee have.

[The prepared statement of Mr. Bowsher follows:]

UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

FOR RELEASE ON DELIVERY
EXPECTED AT 10:00 A.M.
JULY 24, 1986

TESTIMONY OF

CHARLES A. BOWSHER

COMPTROLLER GENERAL OF THE UNITED STATES

BEFORE THE

COMMITTEE ON GOVERNMENT OPERATIONS

HOUSE OF REPRESENTATIVES

ON

THE SUPREME COURT'S RULING IN BOWSHER V. SYNAR

Mr. Chairman and Members of the Committee:

I am pleased to appear before the Committee to discuss the Supreme Court's recent decision in the case of Bowsher v. Synar. As I shall describe, the immediate consequence of that ruling is clear: because the Comptroller General is removeble by joint resolution of the Congress, the General Accounting Office may not carry out the budget reduction responsibilities assigned to it under Gramm-Rudman-Hollings. The longer-term consequences for efforts to reduce the federal deficit and for the General Accounting Office depend to a large degree on how the Congress chooses to respond to the decision.

This Committee is fully aware of the many functions carried out by GAO. Among these are the responsibilities assigned to the agency at its creation. The Budget and Accounting Act of 1921 established GAO, with the Comptroller General as its head, to provide the Congress with an objective assurance that public funds are spent properly. Under the 1921 Act, GAO was given the authority to investigate and report on the use of public funds by the executive departments. In addition, GAO was provided a number of administrative powers previously held by the Comptroller of the Treasury. These include the power to settle all accounts of the government, to supervise the collection of debts owed to the government, and to render binding decisions on questions of payment submitted by disbursing officers and department heads. The 1921 Act also gave the Comptroller General the responsibility of prescribing accounting principles and standards for the federal government.

The drafters of the 1921 Act conferred these powers on GAO because of their desire to ensure that such functions would be carried out by an officer of the government whose impartiality both the Congress and the President could rely upon. For 65 years, GAO has filled that role as the objective overseer of the expenditure of public funds. The success of the original scheme is reflected in the reliance that both the Congress and the agencies place on the thousands of legal decisions, financial audits, and program evaluations conducted by GAO each year. It is also reflected in the expansion of GAO's functions over the years. As Chief Justice Burger noted in the majority opinion in Bowsher v. Synar, the Comptroller General has been assigned a variety of new functions since 1921, including the responsibility of bringing suits to require the release of impounded budget authority, membership on the Chrysler Corporation Loan Guarantee Board and the U.S. Railway Association Board of Directors, and the power to consider bid protests under the Competition in Contracting Act.

The drafters of Gramm-Rudman-Hollings also recognized the value of GAO as an impartial decisionmaker, and chose the Comptroller General to hold the all-important trigger mechanism for automatic budget reductions. Although GAO had not sought this new power, years of experience in audit and evaluation made its staff well-equipped to carry out its responsibilities under the act. On January 21, as required by the statute, GAO reported the reductions necessary to meet the fiscal year 1986 deficit target.

The Supreme Court's opinion addressed two principal questions concerning GAO's role under the statute: first, whether it is permissible under the Constitution for an officer of the United States removable by a joint resolution of the Congress to execute the law; and second, whether the role of the Comptroller General under Gramm-Rudman-Hollings constitutes "execution of the law in constitutional terms." The majority opinion, written by Chief Justice Burger, held that the congressional removal power results in control by the Congress that is incompatible with the "execution of the law." The Court also determined that the powers exercised by the Comptroller General under Gramm-Rudman-Hollings were in fact "executive" in the constitutional sense of that term. The Court therefore struck down the role of the Comptroller General under the statute. Justice Stevens, in a concurring opinion in which Justice Marshall joined, concluded that the Comptroller General acts as an agent of the Congress, and as such could not be delegated the important powers assigned to him under the act. Two justices, White and Blackmun, issued separate dissenting opinions.

The Supreme Court's decision had the immediate effect of invalidating the fiscal year 1986 budget reductions ordered by the President on the basis of GAO's January 21st report. The Court stayed its judgment for a period not to exceed 60 days, in order to permit the Congress to act under the so-called fallback procedures of the statute. Under those procedures, the Congress approved the fiscal year 1986 reductions on July 17th.

The decision also has the immediate effect of precluding GAO's participation in the fiscal year 1987 Gramm-Rudman-Hollings budget reduction process next month. It has been suggested by some that the Supreme Court's 60-day stay effectively retains all statutory provisions of Gramm-Rudman-Hollings in effect until September 5th, and that the Comptroller General is therefore still required to issue a sequestration report for fiscal year 1987 on August 25th. It is clear to us, however, that the stay was intended to give the Congress a sufficient amount of time to deal with the fiscal year 1986 reductions through the legislative process, and was not otherwise intended to extend a statutory scheme considered to be unconstitutional. Consequently, we have no present plans to issue a report on August 25th.

The longer-term effects of the Supreme Court's ruling depend to a large degree on what action the Congress now takes in response. A number of alternatives have been suggested to replace the automatic sequestration mechanism invalidated by the Supreme Court. Several of these would again assign a role to GAO. We are willing to contribute in any way that the Congress sees fit towards the important goal of deficit reduction, although we would not favor any alternative which would interfere with GAO's ability to advise and assist the Congress.

The first alternative available to the Congress, and the one that we prefer, is to retain the procedures currently in effect under the fallback provision of the statute. The existing procedures ensure that the ultimate authority to determine how budgetary resources are reduced is to be exercised by the Congress itself.

Another alternative would be to create an independent board or commission in the Executive Branch to carry out the functions originally assigned to the Comptroller General under the statute. This alternative would clearly avoid the constitutional problems of the original scheme, and could provide some degree of assurance of impartiality.

Other alternatives have been suggested which would keep the Comptroller General in the automatic sequestration process, but would essentially make his report advisory to an existing officer of the Executive Branch. If the Congress determines it desireable for GAO to be involved in the process, such proposals are acceptable to us. One of these proposals, however, would also include a provision authorizing the Comptroller General to bring suit to ensure that the President's order complies with the law. After the decision in Bowsher v. Synar, the Comptroller General's authority to bring this type of action is open to constitutional question. The provision also appears to be inconsistent with a statutory scheme designed to place final authority for making budget reductions in the Executive Branch. For these reasons, we would oppose such a provision.

Finally, one alternative would reinstate GAO as the central decisionmaker in Gramm-Rudman-Hollings, by amending the removal provision considered by the Supreme Court to bar his participation in the automatic sequestration process. This approach would amend the 1921 Budget and Accounting Act by providing that the Comptroller General may be removed by the President. The holder of the office would thus no longer be answerable only to the Congress. The Comptroller General would hold the same status as the head of every agency of the Executive Branch, each of whom is removable by the President, either at will or for cause.

Making the Comptroller General removable by the President would result in a fundamental change in an arrangement that has existed for some 65 years. As I have already indicated, both the Congress and the various agencies have viewed GAO since its establishment under the 1921 Act as an impartial and valuable source of advice and information. The Congress especially has come to rely on GAO as an indispensable aid to its oversight requirements. The great amount of resources that the agency devotes to audit work on behalf of congressional committees, including this committee, testifies to the importance of GAO to the work of the Congress. We would oppose any proposal that might result in a change in that status.

With respect to any proposal to amend the 1921 Act, we are concerned that the Congress, in the rush to find a quick "fix" for Gramm-Rudman-Hollings, may choose an alternative that achieves the unintended result of diminishing GAO's effectiveness. We recognize that the Supreme Court's decision in Bowsher v. Synar may also affect some of the other functions carried out by GAO. In our view, however, legislation addressing the broader implications of the decision for GAO should be considered only after careful study of the Court's opinion. Such legislation should not be included in current efforts to cure the constitutional problems of Gramm-Rudman-Hollings, or be appended to emergency legislation such as that currently required to increase the limit on the public debt. In sum, we believe that any change in GAO's relationship to the Congress and to the President should only be undertaken with great caution and full understanding of the consequences, in order to ensure that the result is consistent with the traditional role that the agency has successfully filled since its creation.

That concludes my prepared remarks, Mr. Chairman and Members of the Committee. I would be glad to answer your questions.

Mr. Brooks. Thank you very much. I appreciate your statement and your contribution to this entire effort to work on the deficit. I appreciate your support of the fallback procedure in the statute as a legitimate way to continue implementing Gramm-Rudman. That is, if we want to implement it and not just add more patches and more bandaids to it.

Do you feel that the fallback procedure is really sufficient to enable Congress to in fact carry out its deficit reduction responsibilities under that law?

Mr. Bowsher. We think it is because the information will become available to the Congress and it would allow the Congress then to vote. I know there are some people who believe the Congress will not vote it and that is why you need the automatic trigger mechanism. I think Congress did vote the 1986 sequester. I think it would be better if they were presented with the amount that it might be in 1987 and voted from that.

Mr. Brooks. What are the drawbacks to enacting legislation correcting the constitutional defects of Gramm-Rudman as an amendment to the debt limit bill?

Mr. Bowsher. Gramm-Rudman II?

Mr. Brooks. Yes.

Mr. Bowsher. The problem that I think you have there is you could well be throwing it back into the courts to be questioned. Of course, you are passing over the role that we have been asked to play, which does have discretionary powers to it, to OMB. I think it is a major question that Congress must give a lot of thought to, as to whether they want to move that much discretion over to OMB.

Mr. Brooks. It would be utterly foolish if we were going to do that patch work job that has been proposed which would give the final responsibility to OMB and have them second guess everything GAO did. There would be no finality to anything GAO did. You would be wasting thousands of man-hours of work and effort and energy. It is a bunch of hokum to have you do it all and then give it to OMB to do over.

Even if they are going to give it to OMB, they shouldn't impose on the GAO to waste your time. You have enough to do. It is a waste of time for a major agency like the GAO. We would already have had CBO's input and OMB and yet they want to go back and get GAO's too. It is a foolish concept and is just a convoluted effort to try to give some legitimacy to what is obviously an effort to turn all the power back over to OMB. That's where Senator Gramm is coming from.

What problems might we anticipate if the triggering power in Gramm-Rudman were given to an agency in the executive branch of Government? What do you think would happen?

Mr. Bowsher. I think maybe I answered that question before on the legal issues, the constitutionality issue, and also the fact that they will have already have made their best estimate when they started the process, you might say, sent it over to Congress and to the CBO people. Therefore, you are sending it back to them and if there have been any changes, you are not quite sure how they are going to come out on it.

Mr. **Brooks**. What would happen if the triggering power were vested in an independent board or commission within the executive branch?

Mr. **Bowsher**. That's one proposal that has been thought about. That would give you somewhat what the original Gramm-Rudman process was trying to achieve and that is an independent group instead of GAO this time, it would be like three people who would make the final decisions. That really would be very similar to what we had when we had the Chrysler Loan Board or the New York City Emergency Control Board. That is, you try to have a group of people who can make the tough decisions, who are not in the mainstream of the political process and not elected officials, and they would be taking some of the heat.

I think in certain circumstances, that could be a useful device and certainly was in those two cases. At the same time, it has to be recognized that the elected officials are giving up a lot of their roles and authorities under that kind of an arrangement.

Mr. **Brooks**. One of the options that we have for changing the current trigger mechanism is to preserve the role of GAO as an evaluator of the CBO and OMB report but mandate that the GAO analysis be sent back to Congress for an up or down vote and then transmission to the President, rather than have the GAO, as was ruled illegal, send it to the President with a direction that he implement it.

Mr. **Bowsher**. That was a proposal that was brought up yesterday in the Senate by Senator Eagleton. That certainly does address the constitutional issue. It does put us in as the final reviewer and it allows the Congress to make that final decision. I think that is a proposal or a version of the fallback position. It would work, I would think.

Mr. **Brooks**. I wonder whether it would be worthwhile having GAO do an evaluation if you had the CBO making a pretty objective analysis and OMB making their objective analysis and you averaged the two. It seems like a lot of work for GAO.

Mr. **Bowsher**. The one advantage, I think, of having us in, based on our 1986 experience, was everyone in the system, including Defense and OMB, knew that the GAO was going to review the numbers. We met with them early on in December and January and showed them what we were going to be looking at—things like the spendout rates—and therefore, we really didn't have too many problems when the reports came over from OMB and CBO.

Mr. **Brooks**. You spent about 6 months working on it.

Mr. **Bowsher**. Two months; December and January.

Mr. **Brooks**. Maybe it would work. Mr. Horton?

Mr. **Horton**. Thank you, Mr. Chairman. I just want to point out that as a result of the Supreme Court decision, you will have more time to devote to some of these other very important matters. I personally, if sitting in your shoes, I would be happy I am out of this mess.

Mr. **Bowsher**. I played three rounds of golf after the decision came down. That's the most golf I have played since I took this office.

Mr. **Horton**. Thank you.

Mr. **Brooks**. Mr. Weiss?

Mr. **Weiss**. Thank you, Mr. Chairman.

I guess I have only one question. You alluded in your statement to the possible economic circumstances at the time Congress is going to have to act later this fall. Does GAO regularly undertake to perform economic projections, based on fiscal policies adopted by the Congress, and second, can you at this point, on the basis of the projections that were made yesterday by a number of the economic forecasting organizations, project what the effect on the overall economy would be of the large cuts required by sequestration?

Mr. **Bowsher**. To answer the first part of your question, we do not normally and historically do the economic projections or the evaluations of projections coming from OMB or CBO. When we were put into the Gramm-Rudman process last year, we did have that role of reviewing their numbers. We organized our economists and other people. We did have the talent to do that. We reviewed it and issued our best advice in our January report.

To get ready for August, if you remember, the original lower court decision stayed the thing and said the process should continue and be heard by the Supreme Court. We had to continue getting ready for our August effort.

As I see the legislative efforts going on, I still have not brought that to a halt because I don't know quite where we are going to end up. We did have an outside economic panel of very distinguished experts help us in January. I had them in on Monday of this week. They are quite unanimous in the thinking that our sequester will be fairly large this year unless other budgetary actions are taken. I showed them the CBO lineup, you might say, of percentage cuts at different levels of excess deficits which was presented to this committee about a month ago. They were pretty much of the opinion that unless other things are accomplished through the budgetary process, we are looking at a fairly large sequester, $30 to $50 billion.

Mr. **Weiss**. Can you then project as to what cuts or sequestrations of that nature would mean to the economy at large?

Mr. **Bowsher**. Again, using the CBO document, presented to this committee about a month ago, at $30 billion of sequestering, the defense programs would have to be cut 8.3 percent and the nondefense, 11.8. If you move up to $40 billion, the defense programs have to be cut 11.2 percent and nondefense, 16.4 percent. If you move up to $50 billion, that would be at a deficit of $194 billion, then the defense programs have to be cut at 14.4 percent and nondefense, 20.9 percent.

Mr. **Weiss**. Since you already have most of that work done, I wonder if we could ask them to, in essence, put that together into a comprehensive report and make it available to the chairman.

Mr. **Bowsher**. We can't do that, Mr. Weiss, until we get the CBO and OMB numbers at the beginning of August, which of course isn't too far away.

Mr. **Weiss**. But at that point?

Mr. **Bowsher**. At that point, if the congressional people asked us to do that, any committee, of course, we would be willing.

Mr. **Brooks**. We would like to have it at that point, as soon as it is available to you. This is the kind of role that the GAO ought to be playing.

Mr. **Weiss**. Thank you.

Mr. **Brooks**. I would also ask the staff to get a copy of the statements made by the chief economists of Chase Econometrics, Merrill Lynch, and Dun & Bradstreet yesterday for you to take a peek at. The Chase people indicated that the shortfall might be as much as $46 billion with a total deficit of $190 billion, or perhaps a bit less. The Merrill Lynch people said it would be $200 billion, which would be a $56 billion shortfall. It will be a short-term disaster if you sequester that much money out of the available funds in the budget, I think.

It is a major problem for the country and we had better start looking at it right now. We have been looking at it here in the committee but elsewhere there isn't much awareness of the problem. On August 15, it is going to be a horrible shock for Congress and for the people of this country in my judgment.

Mr. **Bowsher**. Mr. Chairman, if I could offer one other thing that the committee might want to look at, to understand this whole area. Table III-5 in the CBO/OMB report of last January lays out for you on one page just what is subject to sequester and what isn't. I think it is very helpful. Chairman Gray was trying to explain it. I think in this one table you could get a very good understanding.

Mr. **Brooks**. We will do that. I will make it available to the members of the committee.

[The table referred to follows:]

TABLE III-5. SEQUESTRATION PERCENTAGE REDUCTIONS UNDER ALTERNATIVE BASE LEVEL DEFICIT ESTIMATES FOR 1987 (In billions of dollars)

Base Level Deficit	Excess Deficit	Sequestration Percentage [a]	
		Defense Programs	Nondefense Programs
194	50	14.2	20.9
184	40	11.3	16.3
174	30	8.4	11.8
164	20	5.5	7.2
154	10	2.6	2.6

SOURCE: Congressional Budget Office.

a. Assumes no changes in the sequestration outlay base for defense and nondefense programs from those shown in Table III-4, and no changes in the savings from eliminating automatic spending increases and from applying special rules for Medicare and other programs.

[as reprinted in "The Economic and Budget Outlook: Fiscal Years 1987-1991, a Report to the Senate and House Committees on the Budget--Part I," Congressional Budget Office, February 1986, p. 95.]

Mr. **Bowsher**. The only thing that you must keep in mind that changes is in fiscal year 1986, the Secretary of Defense was able to arrange with the conference committee on Gramm-Rudman to exclude military personnel for fiscal year 1986, but in fiscal years 1987 through 1991, there is no exclusion for that. That would be open to the sequester numbers. Those CBO numbers that I read to you would be based on the 1987 to 1991 ground rules.

Mr. **Nielson**. Mr. Chairman?

Mr. **Brooks**. Mr. Nielson.

Mr. **Nielson**. Thank you. Chairman Gray talked this morning about having to take the Temporary Joint Committee estimates based on some kind of an average of OMB and CBO. Would you be making your own estimates of the snapshot?

Mr. **Bowsher**. That was our original role.

Mr. **Nielson**. Will you still do that?

Mr. **Bowsher**. We will only do it if we are asked to do it by a committee of Congress or if we are written into it in some way, in some modified Gramm-Rudman process. We are out of the process at this moment in time. We are more than willing to do it. We are more than willing to assist Congress in doing that type of a review.

Mr. **Nielson**. I don't know how the chairman feels about it. I would like to see the GAO figures as well. I think the more estimates we have, the better.

If in fact we do have $40 or $50 billion to sequester, how long do you think we can keep these seven or eight programs exempted from the cut? This is a political question but it is also a GAO question because if the numbers get that large, exempting all the health programs, Social Security, and so on from the cut, it is going to get more and more sticky. I wondered if you had an opinion on that?

Mr. **Bowsher**. I have an opinion along these lines, and that is that it would not be easy to keep sequestering against this same group of people and excluding those programs. Pretty soon you are going to put the FBI and the controllers out of business if you have a couple of years of high sequester and still exclude everything else.

I think that is one of the advantages of looking at this chart I referred to, table III-5. I think you can see very quickly that if you are going to have high sequester numbers in the next couple of years, it is very difficult to keep those other programs excluded and off the table, you might say.

Mr. **Nielson**. If in fact the deficit is $194 billion, as you suggested, instead of the $144 billion target, what would it have been had we not made any reductions and we had not adopted a strict budget this time?

Mr. **Bowsher**. I think it would have been higher. In other words, I think that the Gramm-Rudman process and the budgetary decisions that Congress made in the past year have been very helpful in keeping down the deficit, and it would have been higher.

Another set of numbers is kind of interesting if you think about it. Last summer, the deficit was being estimated at about $170 billion, maybe $179 billion. By December, when you passed Gramm-Rudman, it was being estimated at $191 billion. We came up with the $11.7 billion. By taking 7/12 of that $20 billion difference between $191 billion and $171 billion. By the time we actually went through the Gramm-Rudman process in January, it had deteriorated to $220 billion. We were really taking $11.7 billion out of about a $40 billion spread there and now as we look at the actual numbers or the numbers people are forecasting for fiscal year 1986, we are back up to the $220 billion. That is after the Gramm-Rudman cut of $11.7 billion.

Mr. **Nielson**. The next sequester could be four times as bad, roughly.

Mr. **Bowsher**. The next sequester in 1988, I think could be quite difficult to achieve because not only are the numbers spreading on us but the second issue you have to keep in mind is we have had a lot of windfall things that should have been favorable this year, the drop in interest rates, the drop in oil prices.

Mr. **Nielson**. The drop in inflation in general.

Mr. **Bowsher**. Yes. A lot of the good things that have happened to our economy. These should be working to our advantage and are working in this year, but it is hard to see we will get that many good things moving in our direction. We might even get something moving against us in some of those areas for the following year and then we have to get down to $108 billion.

Mr. **Nielson**. Thank you. I have no further questions.

Mr. **Brooks**. Thank you. Mr. Neal?

Mr. **Neal**. How much of that additional amount needed to sequester is a result of—well, I guess really all of it—I think I can answer my own question. All of it is a result of changing economic forecasting?

Mr. **Bowsher**. Primarily, yes. In other words—and when I say the $194 billion, all I'm saying is—I'm not making that prediction at all here today. What I'm just saying is that our economic experts thought it might well be up in the range when we do get the economic forecasts, and most of it will be due to a slowdown in the economy and therefore fewer revenues.

Now we have a couple programs that are spending out faster than we've estimated. One is the agriculture program, and the other is defense, which is spending out even faster. One of the reasons defense is spending out and, I think, will continue to spend out faster is there's so much obligation authority that has been voted in the last few years for defense, that once you put that in the checkbook, you might say, as the checks are written, why it comes down and starts to go a little faster than historic averages might indicate. So those are a couple programs that might well keep spending well into 1987 at a pretty good rate.

Mr. **Neal**. Let me say, I agree with what you've said this morning and what Chairman Gray said, that it would be absolutely irresponsible to turn over this decisionmaking to some unelected bureaucracy somewhere.

But let me ask you on another subject, if I may just for a minute. You know, as a result of the Budget Act, a number of committees are being required to sell off assets. Under our committee, to meet targets we're going to have to sell some Ex-Im Bank loans and some housing loans. It turns out that it is a very foolish, shortsighted thing to do. In the first place they're going to have to be sold at a discount. So the capital of the Ex-Im Bank, for example, will be reduced, and in future years we won't have that income stream coming in. So because of accounting gimmicks, there will be a minor positive impact on the budget deficit this year, but in the outyears it's going to have a very negative impact on the deficit—in addition to having reduced the capital of a very much needed organization at this time with our soaring trade deficit.

We've looked around for some way to see if we can't find a way out of that predicament. We haven't found one.

I guess I'm really asking you, would you agree that that is a shortsighted approach to dealing with the budget deficit problem?

Mr. **Bowsher**. As you point out, Mr. Congressman, you don't have the accounting system and the financial reporting that tells the real story there. That's something that I've been urging for some time—that we modernize our budget and accounting system, so that we truly do get the right information flowing to the Congress and to the decisionmakers. I think this is a good illustration where we don't even write off the losses that you're probably going to incur by selling some of those loans.

And so I think that some of these moves that we're making are being made because of short-term budgetary goals, and the Gramm-Rudman process unfortunately tends to encourage that. I think one of the things that worries me the most that has developed in the last couple of weeks here is this bailout for the FSLIC or the savings and loan associations. It's being tailored to get it off budget, to get it around the Gramm-Rudman process, and that's exactly how New York City got into so much trouble up there with their balanced budget requirement. They moved the stuff from the operating budget over to the capital budget and just phonied up the numbers. I think that one of the problems you have in a process like this is that, unless you have good accounting, good financial reporting, and good budgeting standards, and somebody who can enforce that, why lots of times you're kidding yourself long-term by some of the moves that do help with short-term budgetary goals, you might say.

Mr. **Neal**. Well, I quite agree with you on this banking scheme. Clearly, if there was not a need for that money to be paid out to depositors, there would be no need to so-called recapitalize the FSLIC, and it's a total gimmick to take that thing off budget.

Did the Banking Committee ask you to comment on that?

Mr. **Bowsher**. Yes. And initially we said no, that we thought it had to be on budget. CBO said the same thing. Then they redrafted it and got around the conventions that we said were being violated. And so now we all have to agree that it's off budget, if it's structured this way. But what I worry about is that now we've structured a program that might just buy some time and get us deeper into the hole, you might say, in this area because we're really not structuring the program to deal with the problem. We're structuring the program to beat the system.

And I think we need a program to help the S&L industry here. We have issued reports on the seriousness out there. There's no problem with that. But I just hate to see these incentives being built into the system to game the system, you might say, rather than looking at these issues and coming up with the best solutions, which I think is the way Government should work.

Mr. **Neal**. Well, I quite agree with you. On that subject, do you have a proposal that would help us do both, deal with the savings and loan problem and result in responsible accounting?

Mr. **Bowsher**. Yes, we have the latter, and we have the reports on the savings and loan industry that I think highlight the problem. We have not developed any alternative to the Treasury solution. We were only asked to comment——

Mr. **Neal**. You know, you're talking there about something between $12 and $30 billion, it looks to me like. This is no minor problem.

Mr. **Bowsher**. This is no minor thing. You're talking about—I think they're putting it at $15 billion. When we issued the financial report on FSLIC recently, we said it might be a little bit more than that.

Mr. **Neal**. Well, I hear the bells ringing. I guess that means I've got to stop.

Mr. Chairman, may I just ask, would you send me what you've got on that?

Mr. **Bowsher**. Yes.

Mr. **Neal**. The full committee will be marking that up pretty soon. Maybe there's something we can do about it.

Mr. **Brooks**. Mr. DioGuardi?

Mr. **DioGuardi**. Mr. Chairman, that last discussion was music to my ears. I've been talking about accounting principles, as you know, for a long time, and I'm delighted to see someone on the other side of the aisle now focusing on what I believe is the biggest crisis we face here. We've got a system, a process, that is now based on flawed accounting principles and flawed accounting.

We've heard the Comptroller General say that he's found 426 different accounting systems just in the Federal agencies that he deals with. And it is not for this committee in this hearing to get into it. As you know, I'm a certified public accountant. I saw this problem coming in. I worked with Mr. Bowsher on that New York City crisis back in 1975, and we saw the shell game that was being played constantly to make politicians look good. This is exactly what's happening over here with that FSLIC thing and with many other things that were pointed out.

I have to say that the Comptroller General has done a marvelous job in bringing this issue forward in hearings, more recently in the other body with Senator Roth. There are several bills pending right now. I am the sponsor of one bill, and I have brought it to the attention of the chairman, called the Federal Financial Management Improvement Act of 1986, which would deal with this issue. It can't be dealt with in 1 year; it may take 10, but we've got to find a way to get a transition period going.

I would just ask one question, dealing with another side of the shell game that we play here.

Do you have a position on the issue of dedicated trust funds? For instance, we've got the highway trust funds; we've got Social Security, and I know back in the 1960's some smart politician, rather than raise taxes on Vietnam, decided to take the surplus from Social Security and net it against the budget deficit, and we're faced with that.

But we've got these issues coming up now on the floor. What do we do with these trust funds? Should we now bring those cash surpluses into the system to make the budget deficit look lower, because we want to look better? What's your answer on that?

Mr. **Bowsher**. Well, our answer on that has been that we think that there is a good deal of value to the unified budget concept that was adopted. At the same time, we think that sometimes you don't see the full picture, including using these trust fund surpluses. So that that's one of the things, as we point out in these books that I'll send you, Mr. Congressman, that we think ought to be looked at in the reform of the budget and accounting system, and I think what you ought to do is try to get a breakout, a summary breakout, that shows the components—the major components of the trillion dollar budget as it unfolds—and at the same time, I think it's important to look at it on a unified basis, because it's the flow of the Federal Government's expenditures and income into the economy that is important to the decisionmakers, and so I think we ought to keep that.

I worry again when people try to go off budget, as now more and more trust funds are trying to get off budget. It's to avoid the Gramm-Rudman targets and being included in the Gramm-Rudman process. So the whole Gramm-Rudman process is forcing a lot of efforts here that I think are not good in the total budgetary and financial management of the Federal Government.

Mr. **Neal**. Would the gentleman yield on that point?

Did I understand you, Mr. Bowsher, to say that you had written a recommendation for reforming the budget process?

Mr. **Bowsher**. Yes.

Mr. **Neal**. Will you send me that also?

Mr. **Bowsher**. Sure.

Mr. **Neal**. I take that to be in addition to what you're saying about the recapitalization——

Mr. **Bowsher**. What we have is on the overall financial management system, which includes the budget and the accounting, and we'll send that to you.

Mr. **Neal**. I'd certainly love to see it.

Mr. **DioGuardi**. May I just comment on that? I think you should also see another booklet that the Comptroller General puts out. It's the consolidated financial statements of the United States of America. He signs it, as well as the Secretary of the Treasury. And when you look at the debt section, instead of seeing $2 trillion, you see $4.7 trillion if you put the books of this country on a proper accounting basis.

Mr. **Neal**. Well, I'm not sure that you would, actually, because we don't add in the true asset value of our assets, do we?

Mr. **DioGuardi**. Well, they try. The fact is that you can't put all the gold we have on the market without depressing the price of gold. The fact is that the assets the Government has are very illiquid, but all of our liabilities, both on the books and off the books, require cash at some point. That's the legacy we're passing on to the kids that we have, because at some point, those liabilities, the unrecorded Civil Service pensions, military pensions, Social Security, contingencies, guarantees, accounts payable which are not in the budget process are all going to have to be paid by our kids. It's taxation without representation.

Mr. **Brooks.** Mr. Wise, the gentleman from West Virginia?

Mr. **Wise.** Thank you, Mr. Chairman.

Mr. Bowsher, a couple of quick questions on process. You refreshed my memory, which was that as the House and Senate were working on Gramm-Rudman and even after the economic projections were changing rapidly and went from—what was the figure you used?

Mr. **Bowsher.** Went from 190 in December to 220 in January.

Mr. **Wise.** OK. And who was it that was giving us those predictions of where we were as Gramm-Rudman was being worked up? Was that OMB?

Mr. **Bowsher.** That was OMB, and then CBO was also giving you estimates at that time.

Mr. **Wise.** OK. So all the way along, we've been looking to OMB for our projections, am I correct in saying in the course of about 4 months, we went from—what was it—190 to 220? Actually I thought we were below 190 at one point.

Mr. **Bowsher.** You were in the summer. You were down in the 170's the previous summer.

Mr. **Wise.** So we lost—or if you want to look at it——

Mr. **Bowsher.** You lost $50 billion there.

Mr. **Wise.** OK. And that was OMB making those projections.

Mr. **Bowsher.** They were, but also CBO was basically concurring in how that was moving.

Mr. **Wise.** OK. Now under the original Gramm-Rudman, before you got to take some time off, as I recall—well, let me ask you—what was your role? OMB and CBO, when they disagreed, didn't you have an independent role? I mean, you took a look at what they came to you with, but you had the final word?

Mr. **Bowsher.** We had the final word, and we issued the final order which the President then had no discretion to change. But it was that part of the process that the Supreme Court has now taken us out of, with the issue of the separation of powers.

Mr. **Wise.** And under the original language or intent of the statute, when OMB and CBO brought to you their figures, did they bring them to you separately, or did they bring them to you averaged?

Mr. **Bowsher.** Well, both. In other words, we got three columns. We got the OMB, the CBO, and then the average, all in the same report.

Mr. **Wise.** OK. But then you——

Mr. **Bowsher.** And then we reviewed each of those columns, you might say.

Mr. **Wise.** But you could toss the whole thing out?

Mr. **Bowsher.** That's correct.

Mr. **Wise.** OK. And now what we're left with is a strict averaging?

Mr. **Bowsher.** That's right, in the fallback procedure. In other words, it goes to the Joint Committee, and they have to use the average.

Mr. **Wise.** I guess what bothers me about this process—and incidentally, Mr. Chairman, I do want it on the record; I stand here as still an unrepentant voter for Gramm-Rudman—except that what does concern me on this process is that in the averaging, before GAO could toss the whole thing out and bring their independent evaluation to it, now what we're confronted with is OMB coming with a strict averaging—OMB and CBO, and as Chairman Gray said earlier, if you've got somebody that wants to come in real high and you've got somebody that wants to come in real low, we don't really have any kind of realism in what's being presented to the Congress. So I think that's something that needs to be considered.

Mr. BROOKS. I think, Mr. Wise, you'd concede that the OMB has some decency in them and that the CBO does, and that between them, they will have to stand on their records as economists. If one of them comes in with a 6-percent estimate of the GNP in 1987, everybody in the community, Congress, and the press will understand that they're crazy, and they may say so. I suspect that it would embarrass them—some. [Laughter.]

Mr. WISE. I guess if we're standing on their record as economists, the projections change $50 billion in 6 months——

Mr. BROOKS. Well, $50 million is not that much in this context.

Mr. WISE. Billion.

Mr. BROOKS. Oh, $50 billion is quite a change.

Mr. SPRATT. Furthermore, Mr. Chairman, if they come in in August with a 6-percent GNP, there's another snapshot in January, isn't there?

Mr. BROOKS. There's one in October. In October, they shoot it again in October, the 1st of October.

Mr. SPRATT. A camera with——

Mr. BROOKS. Before the sequestration set up in September would become effective, they shoot it again in October. By October 6—is that the date?

Mr. HAVENS. October 5 is the reporting date.

Mr. BROOKS. The 5th. You would catch me by a day. So it's on the 5th, they shoot it, and the sequestration, if that doesn't prove anything too unusual from what we've already done, then the sequestration would become effective on October 15.

Mr. Wise, did you——

Mr. WISE. No; I was finished. Thank you.

Mr. BROOKS. You've concluded. Mr. Spratt?

Mr. SPRATT. No, sir, I have a couple of questions, Mr. Chairman.

Mr. BROOKS. I want to thank you very much. We appreciate your being here.

Mr. SPRATT. Mr. Chairman, Mr. Chairman, I have just a couple of questions.

Mr. BROOKS. Oh, he did have questions. I thought he said he didn't.

Mr. SPRATT. Yes, I'm sorry.

Mr. Bowsher, thank you for your testimony, and I read what you had to say about simply addressing Gramm-Rudman, the constitutional defects, by changing the removal power. As I understand your testimony, you fear that that might change the whole character of your office and your organization.

Mr. BOWSHER. Yes; and if you read the legislative history of when GAO was created along with the Bureau of the Budget, what the Congress was trying to do was to set up a General Accounting

Office that was really independent, because what you'd had for many years was interference from generally the President or the White House into the Treasury to get the numbers. In fact, President Cleveland was quoted one time as saying that if he couldn't change a certain account, he could surely change the Comptroller.

And so it was with that kind of background that Congress really structured what I think was a very outstanding approach, and that is, Presidential appointment, removal by joint resolution, which includes a Presidential signature, and it's worked. It's worked for 65 years, and it has allowed GAO to become a stronger and stronger organization, serving the Congress, reviewing how things are operating, how the programs are unfolding, how the operations are in the executive branch.

But it takes a lot of independence to do that. In other words, we can't issue the reports that we're asked to look at and issue unless we're independent. In fact, yesterday I got a little critical of the accounting systems at the Defense Department, based at the hearing that you were at, Congressman Spratt, and also a hearing I had before Senator Proxmire, where they just say, "We aren't going to change our systems, and we can't tell you where all those billions of dollars stand at this point in time."

Finally, Senator Rudman said, "I understand now why the Comptroller General has to be independent." He said, "I don't think the average person in the executive branch could have just told us what he told us about the defense systems."

And I think it was a good illustration. That was after Senator Nunn and Senator Stevens had pointed out how they just haven't been able to get the numbers from Cap Weinberger in the last year or so.

So I think that we had a pretty good illustration over there yesterday of why the GAO has to have a high degree of independence to do the work that we are asked to do.

Mr. **Spratt**. I completely agree with your position, your institutional position, but I am concerned about other roles that you have may be constitutionally questionable. For example, under the Competition in Contracting Act, you act as an arbiter in certain bidding disputes by statute, and I don't think you would want to invite a court challenge by expressing your opinion on your position under that act right now. But we will have to address that before long.

Suppose, for example, we provided that you could not be removed, that you would no longer be removable by joint resolution but by impeachment? Now, Supreme Court justices are removable, appointed by the President and removable only by impeachment by Congress. That sure doesn't make them an agent of the Congress. Do you think that would satisfy the Court?

Mr. **Bowsher**. It might satisfy the Court. We are not sure, to be honest. It might well not on some of these roles that we are asked to play.

Milt Socolar is my deputy and former general counsel, and he has handled much of our legal work throughout this whole process. Why don't I ask Milt to answer, and then I would like to come back and answer also from how we work and how I would worry about some people in the executive branch maybe wanting to influence our work if we changed the 1921 act.

Mr. **Socolar**. I don't think it would resolve the constitutional question. It would just engender a different constitutional question. If we were to be or if the Comptroller General were to be subject to removal by impeachment only, there would be a serious question still as to whether executive functions could be performed by such an officer.

The Supreme Court decision dwelt on the removal clause as it now exists in statute because that is what it was faced with, but I don't think, from the rationale of the Court, that it would be at all clear that that would solve the problem.

Mr. **Spratt**. They would still view the Comptroller General as primarily an agent of the Congress.

Mr. **Socolar**. That is correct.

Mr. **Spratt**. I would like to see some further responsibilities vested in your office. For example, you were saying the 1921 act gave you the responsibility of dealing with accounting principles throughout the Government. We are sorely in need of an accounting standards board, and I think the logical place to vest that responsibility is in your office. It is consistent with the 1921 act. You have the independence and certainly the expertise to handle that. But questions have been raised as to whether or not it can constitutionally be given to you.

Mr. **Brooks**. Mr. Spratt, would you yield just a moment?

Mr. **Spratt**. Certainly, Mr. Chairman.

Mr. **Brooks**. I want to say that I have been in Congress 34 years, and I guess the GAO has been working for 34 years to try to make sense of the accounting systems, to create a unified accounting system within Government agencies. The GAO can make a recommendation on accounting and guidelines for what a proper accounting system should have. That is, it can set the criteria and so forth. They have done that. But the agencies fight like tigers, and the GAO does not own the agencies. Only if a President and the OMB, which controls the agencies' money, have the courage and the dedication to force those agencies to have some kind of a unified, understandable accounting system will it happen.

The Defense Department is probably the biggest violator of that. Their accounting system is designed to keep anybody from knowing how they are throwing away billions of dollars. I don't know if they know what's in their accounts, but they damn sure don't tell us or anybody else. They may know, but I doubt if they know because it is hard to count that much. His thumb gets tired. They used to call him Cap The Knife when I first was here. They don't call him Cap The Knife any more. He is a big spender.

Go ahead. I didn't mean to interrupt.

Mr. **Spratt**. Mr. Bowsher is going to offer some observations, I think, about CICA.

Mr. **Bowsher**. Yes; the CICA case has already been taken into the courts, and we have been winning, right up to the appellate court, on the constitutionality of that issue. Now the Justice Department has been asked for a rehearing, citing the recent Gramm-Rudman decision here at the Supreme Court level, so we will have to go through the rehearing.

Our lawyers are hopeful and confident that we should win again on that because the role is really quite different than what we were assigned here in the Gramm-Rudman process. But we don't know how that will come out. We will just have to wait and see, and I think that is the best thing to do in that area.

The other big area, as you pointed out, that we have to take a look at now is the roles that we have played in the comptrollership function, some of which we took out from the Treasury in 1921, and what I suggested to the Senate yesterday and what I would like to suggest to this committee today is that we take some weeks and months here, but not too long, to look at those. Maybe by the time the Congress comes back in January or February, we would have some suggestions or recommendations on how some of that could get sorted out and also how to get a stronger, more unified accounting system in the executive branch because in the final analysis, as the chairman points out, they have got to do it.

In other words, we can recommend, we can design, and we can advocate. In the final analysis, unless OMB and the President and the heads of agencies want to have a system that works, a system that is full disclosure, we can't force it. Although we have had more of a statutory base since 1950 to do it, in the final analysis they have to do it.

But I think the Gramm-Rudman issue is bringing it right up to the surface—and that is that the decisionmakers need good information. In other words, it was one thing when we had budget surpluses or lots of budget authority to pass around—back then you could get by without a proper budget accounting—but I think today it is making everybody's job much harder.

Mr. SPRATT. Thank you very much.

Mr. BROOKS. I want to thank you again, General, for your appearance today with Mr. Havens and Mr. Socolar. We are grateful to you.

We will continue the hearing at 3:30 this afternoon, and we thank you again.

[Whereupon, at 1:12 p.m., the hearing was recessed, to resume at 3:30 p.m. the same day.]

AFTERNOON SESSION

Mr. BROOKS. The committee will come to order.

I want to observe that the last time this committee had a hearing of the full Government Operations Committee was in 1962. So this hearing today underscores our serious concern that we have for this matter.

Our next and final witness for the day is James C. Miller III, Director of Office of Management and Budget, who has an illustrious career in the Government behind him and perhaps ahead of him.

Your statement will be made a part of the record. Please proceed.

STATEMENT OF JAMES C. MILLER III, DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET

Mr. MILLER. Thank you, Mr. Chairman. It is a privilege to appear before this committee. I share your concern over the matter before us, the Gramm-Rudman-Hollings sequester, and the problems attendant with that.

If I could just summarize my statement for you.

Mr. **Brooks**. Your statement will be accepted in full for the record.

Mr. **Miller**. Thank you.

The first point I want to make is that we have seen that agencies of the Federal Government generally have been able to cope with the 1986 sequester reasonably well. There has been very little in the way of reduction in employees, owing specifically to the sequester; very little reduction in services offered to the public.

The second point that I would like to make, however, is that if there should be a sequester for fiscal year 1987, we think that the costs would be much more severe. The initial sequester for 1986 cut a lot of fat out, and there is not that much more fat across-the-board in the Federal Establishment. And so we, along with most Members of Congress, would like very much to avoid a sequester for fiscal year 1987.

The third point I would like to make is that we have not been able to produce the midsession review this year on July 15, and decided to delay it for two reasons:

No. 1, we needed to incorporate the effects of the urgent supplemental appropriations bill, and that was available only recently. We have to go back to the agencies to get things repriced, and so that would take us beyond the July 15 date. The second reason is that given the uncertainties with the economy and where things are going, we wanted to be able to incorporate or to reflect the data that came out last Tuesday, the 22d: The growth data for the second quarter, the revisions for the first quarter, the fourth quarter of 1985 over 1984, et cetera.

The fourth point I want to make is that when we produce the Gramm-Rudman-Hollings sequester report of August 20, it will be based on a very different baseline than our midsession review which we now expect to be produced the week of August 4. The August 4 report will be based on the President's budget updated for actions by the Congress since the February budget was released, and also slight modifications in the President's budget to reflect, in some part, the congressional budget resolution.

The report of August 20, however, will be based on the so-called Gradison baseline. As you know, written into Gramm-Rudman-Hollings is a requirement that when the OMB and the CBO issue their reports of August 20 and October 5—or this year October 6, because the 5th falls on a Sunday—that with respect to outlays, you have to incorporate the 1986 figures for those accounts that are not appropriated for a full year in 1987.

So, for example, if there were a continuing resolution of less than a full year, you would incorporate appropriations at the 1986 level.

Since the basis for those two reports will be quite different, I would anticipate very different estimates of the deficit and estimates of outlays, and so I think it is important to bear in mind that we will be seeing that and there are good reasons for it.

I am a little bit sensitive to charges that some might feel that we had been trying to manipulate the figures in some way.

The fifth point that I would like to raise is that we believe that the Gramm-Rudman-Hollings trigger should be repaired in light of the Supreme Court's decision in *Synar*. As you know, the President demurred in signing Gramm-Rudman-Hollings over the constitutionality of the Comptroller General's participation in the automatic sequester mechanism.

We believe that the system should be fixed, the automatic trigger should be restored. Senators Gramm, Rudman, and Hollings have proposed such a fix that we have analyzed and found constitutional, and we support.

The sixth point that I would like to make is that in addition to repair of the automatic sequester, we would welcome from Congress enhanced rescission authority for the President, or line item veto for the President, or moving forward to pulling out to the States a constitutional amendment to balance the budget.

Mr. Chairman, that is all I have in the way of a prepared statement. I would be glad to respond to your questions at this time.

[The prepared statement of Mr. Miller follows:]

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

TESTIMONY OF

JAMES C. MILLER III

DIRECTOR

OFFICE OF MANAGEMENT AND BUDGET

before the

GOVERNMENT OPERATIONS COMMITTEE

U.S. HOUSE OF REPRESENTATIVES

on

THE BALANCED BUDGET AND EMERGENCY DEFICIT

CONTROL ACT OF 1985

July 24, 1986

Mr. Chairman and Members of the Committee: I am pleased to appear before you to discuss the Balanced Budget and Emergency Deficit Control Act of 1985, the Gramm-Rudman-Hollings (G-R-H) Act. My testimony today deals with the impact of G-R-H to date and the outlook for the future in light of the recent Supreme Court decision.

In holding that the Comptroller General's role in the Act's sequester process was unconstitutional, the Supreme Court left unaffected the Act's deficit reduction targets. The Administration remains committed to meeting these goals. The Court also stayed its order through September 5th to permit Congress to implement the fallback provisions of the law and to decide whether to affirm the sequestration then in effect for FY 1986. I am very pleased Congress acted promptly in the affirmative, and I anticipate the President's signing the joint resolution as soon as it reaches his desk.

As you know, G-R-H limited the size of the outlay sequester in FY 1986 to $11.7 billion. Under the President's order of last February, non-defense programs subject to sequestration were reduced by 4.3 percent. The across-the-board cut for defense programs was 4.9 percent. In furtherance of the Act's provisions, we issued guidance to the agencies urging them to minimize the impact of the sequester on the civilian workforce and to absorb the cuts in a manner generally consistent with good management practices. Most agencies were able to achieve these goals with little difficulty.

A number of agencies, including the Department of Defense and the Library of Congress, had difficulty -- in major part because they were cut more by the regular appropriations bills than by the sequester. But such cases were fairly isolated. For example, last May, OMB informally surveyed major agencies to ascertain the likely effects of sequestration on the Federal civilian workforce (including the civilian portion of the Department of Defense). Out of about 2,120,000 in total FTE civilian employment, excluding the Postal Service, G-R-H and other factors were expected to lead to about 5,000 fewer FTE's for the year, with almost all reductions accommodated through attrition; hardly any (less than 100) FTE reductions were expected to be the result of compulsory reductions-in-force (RIFs).

Earlier this month, we undertook another informal survey and found that, with rare exception, the total deductions are now estimated to be considerably lower -- in large measure because of additional funding for key initiatives contained in the recently-enacted Urgent Supplemental. Although the number of RIFs remained the same, the total number of planned furloughs due to G-R-H has declined by 80 percent.

While it now seems clear that agencies were able to absorb the FY 1986 sequester without major disruptions -- not only to personnel but in terms of the services and other benefits provided -- it should be noted that a further sequester for FY 1987 of any magnitude would have much more serious consequences. Thus, the Administration believes it is essential for Congress to enact spending legislation that achieves the $144 billion deficit target for FY 1987 through targeted cuts and reforms without sacrificing our national defense or raising taxes.

Currently we are in the process of updating the Administration's budget and plan to issue a revised deficit estimate early next month. However, I should tell you that it is becoming increasingly clear that recent economic developments and other factors have made it more difficult to meet the FY 1987 deficit target than either the Administration or Congress anticipated just a few months ago. On the other hand, we do believe that it is possible to hold the line on the deficit without jeopardizing our national defense capability or raising taxes. The revised deficit estimate based on modifications in the President's budget that we will issue next month will be in accord with the G-R-H target of $144 billion for FY 1987.

Of course, the report just mentioned is the Mid-Session Review, which was due to be released on July 15th. Unfortunately, as in recent years, we were not able to meet the July 15th date. This year there were two major reasons for delay. First, we needed to incorporate the effects of the recently-enacted Urgent Supplemental, and it simply wasn't possible to accomplish this in the time provided. Second, as you know, we are experiencing considerable uncertainty right now over the pace and direction of economic activity, so it seemed highly propitious for the Mid-Session Review to reflect the government's second (calendar-year) quarter 1986 preliminary growth figures, due out on July 22nd. Thus, we expect to publish the Mid-Session Review the first of next month.

Now, let me turn my attention to the G-R-H report due on August 20th, and I want to stress at the outset that, by law, it will reflect different assumptions than the Mid-Session Review. Thus, there is every reason to anticipate that its projection of the FY 1987 deficit will be different than the one contained in the Mid-Session Review. I wish to stress this point because I am very sensitive to the confusion that may well be generated when we release two different deficit estimates so close together.

The major assumptions required by the G-R-H report of August 20th are as follows:

-- For receipts, we must assume continuation of current law; excise taxes dedicated to trust funds are assumed extended at current levels.

-- For appropriated programs, we must assume enacted FY 1987 levels. For those accounts where Congress has not enacted full-year appropriations for FY 1987, we must assume a continuation of levels appropriated for FY 1986.

-- For programs that are not appropriated, such as social security and offsetting receipts, we must assume continuation of current law.

These rules, then, are used to develop what is known as the "Gradison-baseline," after Congressman Bill Gradison, who sponsored this solution to problems attendant with forecasting likely Congressional action on receipts and appropriations.

As you know, under G-R-H our report of August 20th is submitted along with a similar report by the Congressional Budget Office (CBO). Not surprisingly, because so many conceptual issues have to be resolved in applying the Gradison baseline, there may well be slight differences between the two agencies. In principle, we tend to read the Act as written whereas CBO tends more towards gleaning the Act's intent. Nevertheless, it is my hope that we can resolve all the conceptual differences before the joint report is published on August 20th.

In all likelihood, both OMB and CBO will conclude in their reports of August 20th that the FY 1987 deficit will exceed $154 billion, thus indicating that a sequester will be necessary unless Congress acts. Then, of course, OMB and CBO will submit another joint report on October 6th, reflecting the same baseline rules but also reflecting any interim Congressional action that affects the deficit.

Let me address one final issue. Senators Gramm, Rudman and Hollings have proposed to amend G-R-H by placing ultimate responsibility for the estimates with the Director of the Office of Management and Budget. Specifically, their proposal would continue to have OMB and CBO report to GAO. But rather than have GAO issue the final report to the President, GAO would now report to OMB. OMB would then report to the President and to Congress, and the Presidential order would be based on the final OMB report.

We support efforts to improve G-R-H. The promise this law made to the American people must be fullfilled.

As we understand the proposed amendment, it would correct the constitutional problem the Supreme Court found. The final report would be issued by an official serving at the pleasure of the President, the Director of OMB. Moreover, the Director would not be legally required to use legislative branch numbers in his final report, either by averaging or otherwise. However, he or she would be subject to the same constraints the Comptroller General was under in the original version of G-R-H.

Mr. Chairman and Members of the Committee: that completes my statement. Now I shall be happy to address your questions.

Mr. **Brooks**. You stated it very candidly, Mr. Miller, but we have a couple of questions. Now that we are operating under the fallback procedure of the Gramm-Rudman-Hollings, as we have for the revalidation of the $11.7 billion sequestration, do you think that this process is adequate? Or do you desire to see something else that is mandatory in its place?

Mr. **Miller**. I really think that we ought to have the trigger, because——

Mr. **Brooks**. You mean a changed trigger. This is a trigger.

Mr. **Miller**. Yes, sir, I'm sorry. We ought to have a truly automatic and certain trigger that would be of the type that was originally written in with the GAO, presuming it were constitutional, or the type that so-called Gramm-Rudman-Hollings II envisions. Just to be candid, Mr. Chairman, I am of the opinion that if it turned out, in the OMB-CBO report to Congress of October 5, that the sequester were going to be more than $20 billion, I doubt that there would be a sequester. The reason being—without trying to seem partisan about it or as between branches of Government—either Congress would not provide a joint resolution or the President would veto a joint resolution. I'm not saying he would; I think he would sign a joint resolution of sequester. But I just do not believe that there would be a sequester if the amount of the sequester were $20 billion or more. If it were less than $10 billion, of course, there would not be a sequester because——

Mr. **Brooks**. I understand.

Mr. **Miller** [continuing]. Of the $154 billion trigger. And given that, it is my opinion that it is much more likely the Congress than the President will orchestrate a reduction in the deficit to avoid a sequester, if there is an automatic sequester mechanism.

Mr. **Brooks**. Mr. Miller, it is my feeling right now from the testimony we have heard from economists, you, and from the GAO, as well as from the reports that I have read, that even if Congress stays within the budget that we now have calling for the $144 billion deficit, passes all the appropriations bills, as we are rapidly making progress in so doing right now, and gets the Senate to pass them and the conferences are resolved, we will not really meet the deficit target. I think that is a possible albeit a difficult thing to do. We are working toward that, so that hopefully by August 15, Congress, the House and the Senate, and the Republicans and the Democrats, will have met the $144 billion deficit target. But on August 15 when they take the new snapshot, our budget resolution may not meet the $144 billion target because of a sluggish or stagnate economy.

But now you are in the process of assessing the general economic condition of the Nation, of which there are varying reports as to its deterioration or growth. The growth rate for the second quarter was—the GNP—was 1.1, and maybe it will average for the year at 2 plus. That is a far cry from 3 or 4 percent predicted earlier. It makes a lot of difference in the budget. You know that. Now that you're in the process of assessing that, where do you think the real deficit for 1987 is likely to be, based on the numbers with which you are now familiar?

Mr. **Miller**. Mr. Chairman, let me say that we are in the process of making those kinds of estimates, and the numbers change. If you have a change of $10 billion in a trillion dollar outlay, that's only 1 percent, so you don't have to be more than 1 or 2 percent off or have a 1- or 2-percent change and make a big difference between the deficit and the target of $144 billion.

I think it is likely today, if we were to estimate the CBR [continuing budget resolution], it would come in $10 or $20 billion above $144 billion.

Mr. Brooks. $10 or $20 billion?

Mr. Miller. Yes. Keep in mind——

Mr. Brooks. I understand it is not an exact science.

Mr. Miller. Let me just point out, if I could, Mr. Chairman, last year we had a CBR of $172 billion, but, yet, even after the $11.7 billion sequester last January, we are looking at a deficit, of $215, $220 billion.

Mr. Brooks. I agree. Now the Chase Econometrics people—Mr. Chimerine was in yesterday and testified that he thought the deficit would be in the range of $180 to $190 billion. That would be a $36 to $46 billion deficit above $144 billion.

The Merrill Lynch people, Mr. Straszheim said that he thought it would be $220 billion for this year. I think that there is a general consensus on that ballpark figure. He also said for 1987 he thought it would be $200 billion, which would be a $56 billion sequestration cut.

Mr. Bowsher testified this morning, as you know, and he did not give us an exact figure, but he thought it would be in excess of $25 billion. I believe that was the gist of what his systems had turned up.

So I am just wondering, under the fallback, you and CBO make forecasts, of the deficit send them to the Joint Committee of Congress, and a sequestration for *x* dollars is required, do you think that we might have another sequestration on October 6?

Mr. Miller. Well, I think——

Mr. Brooks. You know what I'm saying, if these numbers, as sensitive as they are, change from August 15 to October 6—and they will change, I would think. Those numbers don't stay static, they will change some.

Mr. Miller. Yes, sir.

Mr. Brooks. Do you think we could have another sequestration October 6?

Mr. Miller. Let's suppose that we show on August 20, based on the snapshot on August 15, that we're $20 billion over, and let's suppose in the interim that Congress and the President work together and reduce the deficit by $20 billion, so we go back to $144 billion. I think in that event it would be unlikely that by October 6, our report of October 6 would then show us over $154 billion. So I think it's unlikely you would have a $10 billion escalation in the deficit in that short a period of time. But it could happen.

Mr. Brooks. It could?

Mr. Miller. Yes, sir.

Mr. Brooks. Proposals have been made to remove funds, such as the highway trust fund, the administrative funds for financial protection institutions, like the FDIC and the FSLIC, and other nonappropriated funds, from the sequestration process on the grounds that they should be treated differently from regular budget accounts. What would be the effect of such action? What do you think of this?

Mr. MILLER. Well, most of the funds that you've identified technically do not count against the deficit. They are basically user charges funded by the user of the services, so that would not have an effect on the deficit. We have indicated we do not oppose those kinds of changes. However we have had some substantial disagreements with some of these agencies because they feel that they shouldn't be subject to Gramm-Rudman-Hollings. Both CBO and OMB and, in addition, GAO have ruled that the plain language of Gramm-Rudman-Hollings does include them. So we have applied the Gramm-Rudman-Hollings sequester of 1986 to them as well.

Mr. BROOKS. You do not think that it is inequitable to include them?

Mr. MILLER. Well, I do not think——

Mr. BROOKS. I am not asking for a political judgment, I am just asking for a bookkeeping judgment.

Mr. MILLER. There is an argument of inequity there, that it is inequitable to include them, because they are independently financed and technically do not—if I understood your question correctly—do not affect the deficit. And we have indicated informally, to Members of Congress who have inquired, that we would not oppose an amendment which excised them from Gramm-Rudman-Hollings.

But again, what we are required to do in our report—what we, CBO and GAO, have been required to do in our report is carry out the law as it is written.

Mr. BROOKS. As written, not as you would like to have it.

Mr. MILLER. That is right.

Mr. BROOKS. All right.

In January the OMB predicted that the percentage of growth in the GNP for fiscal year 1986 would be 3.5 percent. On Tuesday, the GNP for the first three-quarters of fiscal year 1986 was estimated at 2.3 percent. And the GNP for the second quarter of calendar year 1986, came in at 1.1, which are harder figures to deal with. How do you account for that discrepancy? Realizing that a point's difference means a whole lot in this field.

Mr. MILLER. It surely is.

Mr. BROOKS. And you know that.

Mr. MILLER. Part of the problem is that we had something of a mixed blessing. For your part of the country, maybe it was not a mixed blessing, Mr. Chairman.

Mr. BROOKS. It was not a blessing at all. Oil prices went down. Inflation is down. Interest rates are down. The Fed's funds are 6 percent. All of them should have helped the economy, but they did not seem to help too much.

Mr. MILLER. Let me tell you what happened, I believe. What you had, with the falling oil prices, is a change that is going to have a lagger effect on economic growth.

Mr. BROOKS. A lag effect.

Mr. MILLER. A lagged effect.

Mr. BROOKS. You mean it will be a while before it hits?

Mr. MILLER. It will be a while before you feel it.

Mr. **Brooks**. We feel it now. Unemployment in Harris County is 12 percent. Jefferson County, 15 percent.

Mr. **Miller**. Exactly. What you do in the falling oil prices is you feel the cost right away, in terms of the unemployment, in terms of the reallocation.

Mr. **Brooks**. Drop in profits.

Mr. **Miller**. Yes; you feel that right away, and that has had a depressing effect on economic growth.

Mr. **Brooks**. Very depressed.

Mr. **Miller**. But in the longer run, after you move out of this, you make the changes, you make the adjustments, it means that that economic——

Mr. **Brooks**. Will you tell me what kind of adjustments they can make, because I talked to people last night, at 8 o'clock, in Beaumont, TX, who asked "What can we do about this, Mr. Brooks? We are all starving to death. Lots of our people are not working. They have run out of their unemployment insurance and they need jobs. How long is this thing going to run?"

How do they make a readjustment?

Mr. **Miller**. Well, it's like any other area which experiences depressed demand. As time goes on, people find other occupations, find opportunities elsewhere. Economic activity in the locale begins to specialize in other things. And as you point out, it takes a while for this to adjust.

On the other hand, the decisions for expansion that will be made based on lower real prices of oil begin to show up in the economy, in economic activity, a little later. So for that reason, the lower oil prices are having a slight depressive effect, I believe, in 1986 and a stimulative effect in 1987 and beyond.

Mr. **Brooks**. And what happens in 1988?

Mr. **Miller**. I think it will be a stimulative effect.

Mr. **Brooks**. What if we do not have that oil production in the United States, which is going down right now, and we are importing more and more oil from the OPEC countries, maybe up to 38, 39, almost 40 percent. What if we are dependent to that extent on foreign production? What if they decide that they will just put the squeeze on us and run oil prices back up? That stimulated effect will be zip and it will take us a long time, another year, to get back into production. You see that cycle start over.

Now this is how I feel. This is not a scenario that I dreamed up. This is what some of the oil people also feel, that it is just written on the wall. It is just a matter of time before oil prices—when the American production goes down and we are more at the mercy of foreign producers than we ever have been—that they will then put the screws to us.

I mean, they just say well, we do not have quite so much oil so it is a little more expensive now.

Mr. **Miller**. I think what you point out is one reason we ought to enunciate, as a government, very clearly that we would not intervene and cap prices if there were a cutoff of oil.

Mr. **Brooks**. Not intervene and——

Mr. **Miller**. And cap prices if there were a cutoff of foreign oil. Let me explain why. I think to the extent that some expect there to be a cutoff of imported oil, this provides for them the incentive to maintain the excess capacity and the ease of getting back in production, should that happen. But that incentive is there only to the extent they might rightfully expect the Government not to jump in and intervene and allocate on its own and suppress prices.

So I think it very important—and I would be willing to work with you, Mr. Chairman, on this—that somehow we could enunciate a policy, and stick with it, that if there were a shortfall, that the prices would rise and allocate that short supply. And that provides incentive to maintain the excess capacity, so as to ease any shortfall that might be experienced.

Mr. **Brooks**. A lot of Members in the House would like to see a $5 import tax on oil, which right now would not be disastrous to the consumers and would be a vast benefit to the marginal and stripper oil well production in the country, some of which we are losing permanently.

You know they do not open up a 10-barrel-a-day well now. You do not go in and open it up.

Mr. **Miller**. I know.

Mr. **Brooks**. You know, if you cap that, you kiss it goodbye forever, because you cannot afford to drill it and hope for a maximum of 10 barrels a day.

I would like to put in the record the OMB predictions for GNP and the deficit over the years from tables that I think are accurate.

[The information follows:]

COMPARISON OF OMB AND CBO FORECASTS OF ECONOMIC GROWTH WITH ACTUAL GNP

	OMB Forecast	CBO Forecast	Actual GNP
1984	5.3	5.4	6.8
1983	6.7	2.1	3.7
1982	0.2	-0.1	-2.1
1981	1.1	1.8*	2.5
1980	-0.6	-0.9	-0.3
1979	3.3	3.1	2.8
1978	4.7	4.0	5.0
1977	5.2	4.8*	5.5
1976	6.2	6.3*	5.4
	avg. 1.15% pt. off actual	avg. 0.98% pts. off actual	

*mid-point of range

Source: Congressional Research Service, Economics Division.

[as reprinted in the text of "The Balanced Budget and Emergency Deficit Control Act of 1985," hearing before the Legislation and National Security Subcommittee, House Committee on Government Operations, October 17, 1985, p. 161.]

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COMPARISON OF FIGURES ON ANNUAL DEFICITS
(In Billions)

	President's Budget	1st Budget Resolution	2nd Budget Resolution	Actual
1985	$180.40	$181.20	$181.20	$222.20 est.
1984	188.80	169.90	169.90	185.30
1983	91.50	103.90	103.90	195.40
1982	45.00	37.65	37.65	110.60
1981	15.80	+0.20	27.40	57.90
1980	29.00	23.00	29.80	59.60
1979	60.60	50.90	38.80	27.70
1978	57.75	64.65	61.25	48.80
1977	43.00	50.80	50.60	44.90
1976	51.90	68.82	74.10	66.40

Source: Congressional Research Service, Government Division; derived from budget documents.

[as reprinted in the text of "The Balanced Budget and Emergency Deficit Control Act of 1985," hearing before the Legislation and National Security Subcommittee, House Committee on Government Operations, October 17, 1985, p. 164.]

Mr. **Brooks**. What effort have you made to assess the impact of the 1986 sequestration on individual agencies or the potential effects of a sequestration in 1987? You have touched on 1986 and thought they faired pretty well. What do you think about 1987?

Mr. **Miller**. I think it would be a rather severe impact. A sequestration of any sizable magnitude, for example, for the Defense Department would mean the discharge of thousands upon thousands of servicemen—discharging thousands upon thousands of servicemen.

Mr. **Brooks**. We are going to have to go vote and then come back. We will not be long, but we have to make this vote.

Mr. **Horton**. I will not be able to come back, but I just wanted to piggyback on that, if you would yield.

Mr. **Brooks**. I will.

Mr. **Horton**. It seems to me that if we have another sequestration in the calendar year 1987, that we are going to have a devastating effect on the Government. I am particularly concerned about the defense, because it is going to hit pretty hard. I was going to ask you to comment on it, but I do not think we have time now.

But you could probably put a comment in the record for us on it. I would like to have you comment on what you think we can do so that we can avoid that sequestration. I know it is drastic, but I think both the executive and the legislative are going to have to sit down and really make some hard decisions, maybe harder than we have ever made.

But I think sequestration for the 1987 budget, the latter part of this year, the second sequestration, could be so devastating that we ought to do everything we can to avoid it. I do not know whether you agree with that or not——

Mr. **Miller**. I agree with that.

Mr. **Horton**. I assume you do. And perhaps you could put some thoughts in the record for us on that particular concern that I have.

Mr. **Miller**. I will.

Mr. **Brooks**. We will go vote and come back. We will not be too much longer, honest.

Mr. **Miller**. Yes, sir.

[Recess.]

Mr. **Brooks**. The committee will reconvene.

The chair recognizes the gentleman from Detroit, MI, Mr. Conyers.

Mr. **Conyers**. Thank you, Mr. Chairman. I compliment the Chair on the importance and timeliness of these particular hearings. I am pleased that the witness could be with us today.

Mr. Miller, could you explain or at least give us your reason for why you think that reliability could be vested in OMB in terms of this important triggering role, given OMB's past track record of cooking up figures, to be perfectly blunt.

Mr. **Miller**. OK, Mr. Conyers, let me see if I can respond to that, and my response will have several facets.

No. 1, we believe, reading the *Synar* opinion by the Supreme Court, that only someone who serves at the pleasure of the President could undertake this automatic sequester responsibility, so that would mean that it could be any official serving at the pleasure of the President. A reason for the OMB Director would be that that is his or her job—to deal with the budget, to make estimates of the deficit, estimates of revenues.

As to the question of whether the Congress has responded favorably or unfavorably to the budget, first I would indicate that it is the President's budget, not OMB's budget. OMB I view as the arm of the President in developing options for the President and carrying out the mandate of the President and the decisions of the President on the budget, and helping fill in the blanks, so to speak.

The additional point that I want to make in response to your question, Mr. Conyers, is that the responsibility that would be given to OMB under Gramm-Rudman-Hollings II is a fairly narrow technical one, and that is to project or forecast growth rates, interest rates, unemployment rates, etc., and crank this through to determine expected revenues. Also to look on the outlay side where interest rates would certainly affect debt service, where unemployment rates would affect some of the entitlement programs—to look at what Congress has appropriated with respect to discretionary accounts. And, to make estimates of the deficit.

So the role of the OMB in terms of Gramm-Rudman-Hollings II is not to produce a proposal for Congress to react to but simply to carry out the technical job of estimating the deficit.

Mr. Conyers. So the President's budget that was rejected in both houses was not in any way to be attributed to OMB policies or its reputation. I find that a very strange response. I thought the President had the OMB prepare the budget for him. Now you are telling me that the President prepared the budget and you just supplied the details.

Mr. Miller. Well, I think, Mr. Conyers, if you will recall what I described, it is the President's budget. I truly look at the budget as the President's budget. The President sets parameters and priorities. We do fill in the blanks for him working with the other agencies. So we do have a role in preparation of the President's budget and also explaining it to Congress and advocating it on the Hill.

But, as I indicated, the role envisioned under Gramm-Rudman-Hollings II for OMB is not that of making a proposal but of estimating, projecting, or forecasting a deficit.

Mr. Conyers. Well, what I am trying to figure out is what objections you have to the fallback provision that is already in the bill.

Mr. Miller. There is no constitutional objection to it. It's clearly constitutional. I think, however—just as Gramm-Rudman-Hollings is a mechanism which enforces some discipline on the political process to produce a deficit that is going to be sloping downward, be reduced year by year over a period of 4 or 5 years—I think the automatic sequester device, the truly automatic part, is more likely to generate that kind of response on the part of Congress and the President than if we simply rely on the fallback mechanism.

Mr. Conyers. So you can live with the fallback mechanism.

Mr. Miller. Well, we would prefer to have a fix such as Gramm-Rudman-Hollings II, and/or enhanced rescission authority or line item veto or balanced budget amendment to the Constitution, but we see no constitutional problems with the existing fallback mechanism.

Mr. CONYERS. And what are your thoughts about getting the line item veto?

Mr. MILLER. Well, we would very much hope that the Senate would pass Senator Mattingly's version of the line item veto and the House would similarly act to affirm that proposal.

Mr. CONYERS. Do you think that we should question the ability of OMB to make these economic projections? We have had some pretty sharp surprises and some rather large disappointments, even recently. We now are looking at what some term an economic disaster because of the underestimation of the growth picture, so that what we could end up with now are some cuts that would have to take place even though we met what we originally thought were going to be the operational guidelines.

Aren't you responsible for that?

Mr. MILLER. No more so than, I think, anyone else who engages in the forecasting business. Forecasting is an inexact science. If you were to plot out the forecasts of the various firms that do this for a living, and you can easily do that from a publication entitled "Blue Chip Economic Forecast," you would see that from one quarter to the next, the forecasts tend to change in response to the receipt of economic data that portends parameters for the future, or changes in those parameters for the future.

So keep in mind what we are looking at, Congressman Conyers, is something on the order of $10 or $20 billion in a trillion dollar outlay picture, so even $20 billion is only 2-percent difference. The $20 billion is a lot of money, more money than I will ever see, but in terms of the total, it is not. If you were 1 percent off one way on receipts, and you are 1 percent off the other way on outlays, you would be $20 billion off on the total deficit.

We do the best we can. There is innately, inherently in the process of making forecasts an error. We try to minimize that error but it can never go away. As evidence that it is somewhat of an inexact science, I am sure if you had asked, probably did ask each of those economists that you interviewed yesterday, they gave you slightly different numbers.

Mr. CONYERS. What do you think of ignoring the provisions of Gramm-Rudman-Hollings for the coming fiscal year as a way to ease out of what looks like a disaster if this economy continues to slow? We are running into sequestration notwithstanding the Congress' best efforts.

Mr. MILLER. I think that we need to redouble the efforts to avoid sequestration. I would prefer doing that rather than essentially abandoning the Gramm-Rudman-Hollings strictures.

Mr. CONYERS. What about raising the 144 to a more realistic figure?

Mr. MILLER. I still think that that is a good target, an achievable target, one we should endeavor to meet.

Mr. CONYERS. Finally, I remember you said that you were sensitive to charges that there was a little figure cooking over at OMB. Now, your predecessor got $1 million for writing a book explaining how it was done with some precision. Am I to disregard my former colleague from Michigan?

Mr. MILLER. Congressman Conyers, I just really wouldn't want to comment on my predecessor's book. I would just urge you to consider that I have had a long career in the profession of economics and I have certain standards of professionalism to meet, and my colleagues would not abide, I think, any manipulation of the data in order to give a certain reading on the question of the deficit estimate.

Mr. **Conyers**. You say he wouldn't?

Mr. **Miller**. No.

Mr. **Conyers**. OK.

> By October 1981, political reality had nearly overtaken the Reagan Revolution. Now economic reality would come crashing in too in the form of recession and the massive invalidation of rosy scenario, but the true magnitude of the deficit should not have remained hidden so long. We hadn't been the victims of a sudden and unexpected economic earthquake. Instead, we had deceived ourselves nearly from the beginning and had subsequently covered up the forecast debate when it urgently needed airing.

Now, that seems to put your previous statement in some question. This is what he wrote the book about. I don't know if you have had the opportunity.

Mr. **Miller**. Yes, I read the book.

Mr. **Conyers**. The book was about cooking up figures for the Government and the Congress and how it was deliberately done. Now you tell me that your predecessor wouldn't do that.

Mr. **Miller**. No, sir. I purposefully indicated that I would not speak to the case of my predecessor. I think he should speak for himself on that. I was speaking of myself when I made the comments.

Mr. **Conyers**. OK. I am trying to get you to see this from the part of an innocent Member of Congress who would like to believe in OMB. Now, you didn't write the book and you weren't there then, you were in another part of the Government, but OMB has a reputation that isn't so nice in some quarters, unfortunately.

As your predecessor explained to us, they cooked figures regularly. He got paid $1 million for telling us about it. I mean I don't have to remind you of this, do I? So to come over here and ask me to trust you to put together figures, not cook them but to put together figures that will help us through this dilemma that has taken us to the Supreme Court once, has GAO poised to bring another suit against the whole shooting match, sort of stretches even my generous nature in terms of credibility.

I think we have got a very big problem, and to suggest that because you are a new head and it is a new ball game doesn't really change the nature of the way OMB operates. I quote a colleague in the other body: "The last 6 years have seen a study in startling aggrandizing of OMB's power. OMB exerts strict control over executive agency budgets, over personnel strength, and can edit or block testimony before Congress by Cabinet and agency heads." We know a lot about that.

"It can classify budget information as top secret." We know a lot about that. "It once forced delays in a regulation mandated by Congress, and it is far from a neutral accounting firm." So we have got some problems. We like you, we are impressed with you, at least I am, but that has nothing to do with this organization of which you are the Director.

I think it would be disastrous for us to give this back where your figures are so far off where we are back in the hole again, and we have just started Gramm-Rudman. This thing could go crashing down the tubes. You are saying we have got an improper instrument, so if you guys work real diligently, we can avoid the incredible ramifications of sequestration. Sorry, we've got the wrong numbers. Economic forecasting is imprecise. This to me is a good reason for delaying it or reconsidering it entirely.

That was an invitation for you to make a comment about it.

Mr. **Miller**. I think, Congressman Conyers, that you are correct in that it is not as precise a science as it might be. The chairman, or maybe it was Mr. Horton, asked me whether it would be possible for there to be a change between the August 15 snapshot and the report of October 6. I said it was possible—unlikely to be as much as $10 billion—but it is conceivable there could be economic changes.

I can sympathize with the frustration you must feel in that these numbers come in at different levels through the year. All I can tell you, Congressman, is that we just do the best we can. I can assure you this: That any number that is the product of a Gramm-Rudman-Hollings effort in terms of producing a report will go through my hands personally. It is not just the institution that produces the figures. I have final say-so over what they show.

Mr. **Brooks**. Mr. Miller, you want to have certainty in your cut and you are reluctant to rely on the fallback procedure in the bill. I know it is not because you don't trust Congress to do it or the President to sign it when he gets it. Why do you think we can achieve certainty in a deficit reduction, regardless of who does the final numbers, whether you do them yourself personally, if the whole process is based on highly speculative economic forecasts which are not an exact science, which change from day to day and have drastic effects on that Federal deficit?

Mr. **Miller**. Well, you know, inherent in just going after a target is the fact that actions you take on revenues or expenses may not be sufficient, and that is because the deficit is not only a function of what you do in the Congress and what the President does in response, but what the economy does. If you are going to choose a target, if you are going to say we would like to get the budget down by *x* billion dollars or we would like to have the deficit at *y* billion dollars, you have this problem no matter who makes the estimates.

Mr. **Brooks**. You are saying anybody can shoot for the target?

Mr. **Miller**. Yes. Inherent in shooting for a target is the target is going to change a bit.

Or, what you have to do to hit the target may change as time goes on.

Mr. **Brooks**. I really don't understand why you feel that if the OMB made a shot and the CBO made one and put them together, why that wouldn't give us about as good a number as you could get, given the technical ability of the econometrics to produce a number. I would say it is a good sample. I would live with that sample.

Mr. **Miller**. That is a good sample. The problem is we are coming up against the Constitution.

Mr. **Brooks**. That won't affect the Constitution.

Mr. **Miller**. The Constitution would restrain—my reading of the *Synar* opinion——

Mr. **Brooks**. Not the fallback position.

Mr. **Miller**. Excuse me, no. The fallback position is perfectly constitutional.

Mr. **Brooks**. We have the CBO and the OMB make the deficit estimates, draw up the order, and send it to Congress. The Joint Committee would have no authority to change it. It would then be reported to Congress. I think it would pass. Some people wouldn't vote for it but I think it would pass and go to the President. I think he would sign it. He wouldn't like it either, I wouldn't either, but I think he would sign it. We will have to live with that program until we can change the law.

Mr. **Miller**. That is constitutional.

Mr. **Brooks**. That's the way it goes. I didn't vote for it. I can't stand it. It has so many cats and dogs in it. I thought it was unconstitutional in the first place. That's why everybody knew it was unconstitutional. That's why they carefully crafted a fallback procedure.

Mr. **Miller**. That's exactly right.

Mr. **Brooks**. We ought to stay with it and not switch around, fancy it up and try to sell people on another idea. Why don't we just stay with the fallback? You all voted for that and you liked it.

Mr. **Miller**. You were one of the lone voices of reason on the question of legislative veto. You were the one who said it was unconstitutional.

Mr. **Brooks**. I remember. I am glad you do. They thought I was crazy.

Mr. **Miller**. You were proven correct.

Mr. **Brooks**. John Conyers said he knew I was right.

Mr. **Miller**. He, too, was proven correct. I believe there is a constitutional fix for Gramm-Rudman-Hollings that would reapply an automatic trigger and for reasons I expressed earlier, I think a truly automatic trigger would be more likely to result in a substantial deficit decline over the years than would relying on the current fallback mechanism.

Mr. **Brooks**. One of the other reasons for not doing this is because there is no point to it. If we are going to have OMB and CBO make their estimates and then we give it to GAO to evaluate under the Gramm-Rudman-Hollings II deal, and then bring it back to OMB for final decisions, it doesn't make any difference what anyone else says, we might just as well take the OMB number and the CBO number, put them together, and send them to the Army or six other economists to evaluate and then get them back. Nobody would care. We are going to use the two we have or an adjustment of the two.

I think we have that option under the fallback. I think we ought to do that and not try to change this thing. The public is never going to understand this latest proposal. Just face the issue and do it. I'm willing to look it right in the teeth even though it isn't going to be pretty.

Mr. Nielson.

Mr. **Nielson**. Thank you.

Mr. Miller, you mentioned what you are going to do on August 4 based on the President's budget and whatever congressional action has been taken in that time and again on August 20 or 22, based on the Gradison baseline. Why do we have to have both? Is that in the law?

Mr. **Miller**. Yes.

Mr. **Nielson**. Is there any good reason for having both?

Mr. **Miller**. I think that the concern was that if you didn't have the so-called Gradison baseline, then it would leave too much discretion to OMB and CBO to estimate what Congress was likely to do in the event they did not have appropriations for the coming year.

Mr. **Nielson**. Since Gramm-Rudman is temporary, at least out of commission, could you skip one of them and do a better job on the second one if you didn't have to do the first one?

Mr. **Miller**. I think we really need to do all three reports.

Mr. **Nielson**. I can see the October 1 and August 20. I cannot see any justification for August 4 if you in your own testimony say it is going to be considerably different than the August 20. Aren't you increasing the lack of credibility Mr. Conyers mentioned, if you have two, which knowingly are different from each other?

Mr. **Miller**. Again, all three are required by law. We are trying to respond to the law.

Mr. **Nielson**. You are pretending that law is still intact?

Mr. **Miller**. The law is still intact. The *Synar* opinion by the Supreme Court did not touch those provisions of law at all.

Mr. **Brooks**. Will the gentleman yield?

Mr. **Nielson**. I would be happy to yield to the chairman.

Mr. **Brooks**. I thank my distinguished friend.

I fought this thing from the time it came out from underneath a rock. The belief was that the October 6 snapshot was never really going to be very drastic. It was the hope that the August 15 snapshot and possible sequestration order would still be effective in October. That was a fail-safe position because it is possible and we would hope it is true, that the economy would burgeon in September or the first of October and we would do much better. If this happened, it might negate the necessity of a sequestration.

That is why you have that second look. Also, if it goes up drastically or substantially changing the figure, you might have to make an adjustment in the sequestration order. Hopefully not, though. It doesn't go into effect until October 15. That is a pretty quick sequestration.

Mr. **Nielson**. You said we should repair the trigger rather than go to a fallback position. Just how would you repair the trigger?

Mr. **Miller**. There is a proposal by Senators Gramm, Rudman, and Hollings that very briefly takes the original language and shoehorns the OMB between the GAO and the President. Under this provision, OMB and CBO would make a joint report to the Comptroller General, who would make certain modifications in the report that he or she believed were warranted and then would turn it over to OMB. OMB would then have the discretion—and, in fact, in order to be constitutional, would have to have—freedom to make whatever modifications he or she thought were warranted in the

Comptroller General's report, and then that report would form the basis for the President's sequester.

OMB would have to explain any differences between the final numbers that OMB adopted and the Comptroller General's numbers.

Mr. Nielson. I am going to read a few statements from other witnesses this morning. I would like you to respond as briefly as possible, five words or less, as to whether you agree or disagree. I have a lot of questions.

The automatic sequestration process, which is the heart of Gramm-Rudman, represents an abdication of congressional responsibility and accountability.

Mr. Miller. I disagree.

Mr. Nielson. I find the fallback position more appropriate than an automatic trigger mechanism that attempts to hide behind a subterfuge and abdicates congressional decisionmaking.

Mr. Miller. I disagree.

Mr. Nielson. It leaves much to be desired in terms of setting priorities but it at least makes us feel more accountable for our actions.

Mr. Miller. Which?

Mr. Nielson. The automatic triggering.

Mr. Miller. I agree.

Mr. Nielson. One sponsor said OMB's function would be just a green eyeshade calculation. Another has noted OMB would inevitably have some discretion in projecting the deficit allocating cuts. Which of those two roles would you play if we did repair the trigger to come into the action?

Mr. Miller. Some of both. We would have to have discretion but our purpose would be a very narrow technical one of making estimates.

Mr. Nielson. How much discretion?

Mr. Miller. Again, to be constitutional, we could not be bound by the numbers developed by the legislative branch of Government, meaning both CBO and GAO. Again, as a practical matter, I would look at the Comptroller General's report as something of prima facie evidence of what the numbers should be and in my own mind I would need to justify any variance from those numbers that I would choose in the report to the President.

Mr. Nielson. Contrary to some of the statements made this morning and later this afternoon about how bad the Gramm-Rudman Act is, let me simply say for the record that had we not had the Gramm-Rudman bill, flawed as it may be, the President would not have come in with as tight a budget as he did. Congress would not have agreed, both Houses and both parties, on a number. I believe it has accomplished some good even though parts were declared unconstitutional, and even though it is going to cause some problems later on. For what that is worth, I think it did have a positive effect on the actions of the Congress.

That doesn't mean I endorse every aspect of it. I am a little disturbed about the fact that you say you might have little discretion on how these cuts will be made. My main objection to the whole process was the fact that the House added eight areas of the budget we couldn't touch. I have always felt the pain should be shared throughout the system, including Social Security. I know I am in the minority. It is a terrible thing for me to say. I still feel that if you have a $40 or $50 billion sequester this fall, people are going to have to come to that conclusion. We are going to have to leave everything open for cutbacks; otherwise, the whole thing will fall like a deck of cards.

I will close with that statement, Mr. Chairman, unless you would like to comment on that.

Mr. **Brooks**. Mr. Neal.

Mr. **Neal**. Thank you, Mr. Chairman.

Mr. Miller, I believe it was this morning or yesterday, the Comptroller General testified that he thought we would face, when we took that August 15 snapshot of the economy, $30 to $50 billion more in deficit than would be allowable under Gramm-Rudman.

Mr. **Miller**. I think that number is a little high. It will be the Gradison baseline on the August 15 date.

Mr. **Neal**. I don't know. We have also heard testimony that the economy will go at 4 percent and so on. No one can perfectly predict the future in economics or any other field. I noticed from your statement that you say it is possible to hold the line on the deficit without jeopardizing our national defense capability or raising taxes. I know that is consistent with other administration statements.

Let's say that we come to the August 15 date and it is a very large number, let's say it is between $30 and $50 billion. Are you prepared to take half of that out of defense? Would that be sensible to do?

Mr. **Miller**. No. I would propose instead that we do things to avoid a sequester in a way——

Mr. **Neal**. What would you suggest?

Mr. **Miller**. I would begin by cataloging the savings that are incorporated in the President's budget submitted in February that have not yet been adopted by Congress.

Mr. **Neal**. The President's budget only got 12 votes on the floor of the House. I asked you what you would do. I don't think the Congress would go along with that. It didn't before, it got only 12 votes.

Let's say that we get to that point, it is a big number, $30 to $50 billion, and we haven't for one reason or another dealt with this and we do go to a sequestration process and we turn it over to you. Under the law, you have to take half of it out of defense and half of it out of the social programs. Are you prepared to do that?

Mr. **Miller**. If the Gramm-Rudman-Hollings II bill were passed and enacted into law—and this is altogether hypothetical—but if it were the result of our report that the deficit exceeded the $144 billion target for fiscal year 1987 by $30 to $50 billion, my report to the President, upon which he would have to base the sequester order, would take half from defense; yes. I would have no discretion in that part of it.

Mr. **Neal**. You understand that you would not?

Mr. **Miller**. Yes. The only discretion OMB has under this is in the parameters it chooses that determine its estimate of the deficit and even that, as I indicated, is a very public process. There would be CBO, OMB, GAO reports before that time. I would have to justify differences between my figures and those of the Comptroller General.

That is the only discretion OMB would have, the number—the estimate of the deficit. The estimate of the difference between the $144 billion and the deficit. Once that is determined, there really isn't any discretion, with the slight caveat that we have gone through the process in 1986, as you know, of a number of areas in which we made specific interpretations of the law as in the question of some of the financial institutions that you asked me about, Mr. Chairman. We resolved all of those, and I don't think there is anything left in that area to resolve.

The only discretion OMB would have is the deficit estimate. After that, it is all automatic.

Mr. **Neal**. You would have the discretion within the defense area to make choices. You could cut salaries and raise strategic——

Mr. **Miller**. No. There was a flexibility accorded defense in the 1986 sequester that is not available in 1987.

Mr. **Neal**. It has to be across the board?

Mr. **Miller**. It has to be account by account. That is the law.

Mr. **Neal**. On a different subject, I was not here for your testimony but I understand you also argued for a line-item veto authority. I am troubled by that. I understand it is claimed that the Mattingly proposal somehow gets around what I believe would otherwise be a constitutional prohibition against that, since the Constitution envisions that spending decisions are originated in the House of Representatives and so on.

Beyond that, what troubles me is the basic idea behind it. It seems to me it would shift an enormous amount of power from the people's House of this country to the executive branch. I see very little difference between that and the idea of a dictatorship, where all power lies in the executive branch.

If one branch of the Government already has enormous power, clearly the most powerful branch of Government, and was then given all power over spending, it is hard for me to see what role would be left for Congress.

And I have trouble seeing what would differentiate that situation from one of these military dictatorships or some of the others that existed throughout history around the world.

Mr. **Miller**. If I might respond to that, the key difference, of course, is that the President is subject to a tribunal of election every 4 years as a dictator would not be.

Mr. **Neal**. Well, Mr. Pinochet, they say, is subject to an election every now and then. But if he does not like it he just says we will put off the elections another 8 or 10 years.

Mr. **Miller**. Well, granting the President line item veto would not void the constitutional requirement that the President stand for election every 4 years.

Second——

Mr. **Neal**. Let me stop you there, just if I may. Is the idea though that since he stands for election every 4 years that during that 4-year period that you think he ought to have all power?

Mr. **Miller**. No, I have not advanced that notion, Congressman. You asked me, I thought, a rather carefully circumscribed question with respect to line item veto. I would not extrapolate power over legislative veto to absolute power within the 4 years in office.

As you know, a President is bounded in quite substantial ways beyond the question of power over appropriations. My understanding is the Justice Department has researched the question of constitutionality of the line-item veto quite thoroughly and concluded that the Mattingly bill does contain a constitutionally acceptable provision in it.

Mr. NEAL. Because it is temporary, I believe. Is that not——

Mr. MILLER. I do not think so. But the question is, I think, whether a line item veto would improve our budgeting process without disturbing the basic tension among the branches of Government that I think the Founding Fathers envisioned. And I believe the answer is yes, that it would improve without violating those basic tensions.

Mr. NEAL. I guess my question is just a little bit different. I would, I guess, grant that a dictatorship can be more efficient or that certainly if there is only one person making all the decisions, that it can reduce tension among the branches and so on. But I guess my question is a little bit broader, and I am serious.

It would seem to me that this would really upset the balance of powers very dramatically and would give enormous—perhaps dictatorial powers is too strong a statement. I do not know. It almost seems that way to me because if you control the purse strings you control almost everything in this country. It is the one power really that the Congress has. It is the main power that the Congress has.

And if you turn that over to the executive branch, it would seem to me that you would almost complete—I guess Congressmen could dress up in tuxedos and go to parties or something, but what else would they do?

Mr. MILLER. Congressman, in the same spirit of scholastic endeavor, in which I am sure you have raised this question, let me respond the following way. I think it is probably the fact that the budget tends to occupy Congressmen's and Senators' time more than anything else, but I think the legislature does engage in many other activities in addition to budgeting.

The second point I would raise is that—I cannot remember exactly but a very large number of—in fact, I think a majority of State Governors—have line item veto authority. The President often recalls the days of his governorship in California, where he had line item veto authority. And I do not think, as a result of this line item veto authority, there has been an imbalance in the tripartheid branches of government in the State governments, among the judicial, legislative, and executive branches in the State governments.

I think it is not nearly as large a shift of authority as you characterized earlier.

Mr. BOULTER. May I interrupt just for one second, just to say it is 46 Governors who have that authority.

Mr. NEAL. On that point, you know the Governors of States deal with a very limited area of responsibility. They have the State highway patrol, education, a few other things, and that is about it. Here we are dealing with almost everything imaginable. I sometimes get the feeling that the President and his strong supporters would like to see the Federal Government provide a national defense and nothing else.

And if that is true, then the President could essentially veto everything else. Just say we will have a national defense and shut down the rest of Government. There would not be anything, it seems to me, that with a line item veto that the Congress could do about it.

Mr. **Miller**. Congressman, having observed this President close at hand and having been critically involved in preparation of his budget, I can assure you that he believes that there is a broader role for Government than that.

Mr. **Neal**. Let us say some other President then. Maybe not this one.

Mr. **Miller**. But that would be something subject to the choice, put to the voters, in the form of essentially a referendum. If a President were to have line item veto, I should imagine that how he would exercise that line item veto would be of critical importance to the electorate, in determining their choice for President.

Mr. **Neal**. Well, it seems very extreme to me, but I appreciate your comments.

Mr. **Brooks**. Thank you.

Mr. Armey, the gentleman from Dallas, TX.

Mr. **Armey**. Thank you, Mr. Chairman.

Mr. Chairman, I too would like to express my appreciation to you for holding these hearings. I am concerned about this whole area. I happen to support Gramm-Rudman, not because it is the best approach, but the only one we were able to obtain.

I would also like to join my colleague from Michigan in expressing my personal regard for you, as well as my admiration for your work in the agency.

But I can go one further, because I am—as you know—a professional economist and from the great State of Texas as well. I am acutely aware of the fact that the best economics department in the State of Texas is at our great institution, Texas A&M. I am one Texan who does not tell Aggie jokes. And in fact, I might mention that Texas A&M is one of the top-ranked economics departments in the Nation and I have a great deal of admiration for them.

I am bringing myself here to a point. You may recall that Mr. Stockman was not a professional economist. You and I are professional economists. We suffered through the rigors of graduate school. We understand what we were doing in our formative years, making something of us that we would be the rest of our lives.

And I believe I have seen in your work, and see in your person, something I like to believe I see in myself, which is a burning desire to always have what Professor Samuelson once said was the only coin worth having——

Mr. **Miller**. In his Presidential address, yes.

Mr. **Armey**. Well, the praise of your colleagues.

Mr. **Miller**. Right.

Mr. **Armey**. And you get that only if you are accurate, scientific, and sober, which I have found you to be. So I really believe that your professional credentials and the respect with which you are held by the profession makes it possible for me to quickly come to the conclusion that you do not need to have the albatross of David Stockman around your neck. And I, for one, will not see that there.

I have heard some things that I have heard before, that I would like to clear up. I think it is highly irregular, in the history of legislation in this country, for the President's budget to be put to a straight up-and-down vote on the floor of the House. As I understand, the President's budget is a recommendation to the Congress and that every President's budget is brought to the Congress, where within the context of the Congress' responsibility to initiate spending, the budget recommendations of the President are massaged, modified, and changed as Congress sees fit.

Is it quite accurate to say that no President's budget was passed as it was presented by a Congress. To my knowledge, only one President and on one occasion ever had his budget put to a straight up-and-down vote in the Congress.

Mr. Miller. My understanding is that no President, in the history of our Nation, has ever had a budget adopted without change.

Mr. Armey. So that we should not—I think—make too big a thing of the fact that the President's budget was not accepted in full by the House.

As you know, 46 Governors do have the line item veto. It seems to work well. I might also point out that even in political forecasting, we consider ourselves quite accurate within a 5-percent margin of error and the margins of errors that professional economists must necessarily endure, as all forecasters must endure.

Mr. Miller. Well, you know yourself. You put together an econometric model. You have all sorts of independent variables and you have a disturbance term at the end. It has zero mean, but it has a variance. And that variance, multiplied through the model, may give you a 1-percent error.

Mr. Armey. Let me ask you about something else that I continually hear. I continually hear about the disaster of our current American economy. If I take an expression that was very popular in the late 1970's called the misery index, I should think that our current economy is doing quite well.

Would you agree with that?

Mr. Miller. I agree with that. The misery index has been cut in half or more.

Mr. Armey. What is the technical definition of a recession?

Mr. Miller. Well, two or more quarters with a negative growth is usually sufficient to identify—as determined by the National Bureau of Economic Research—is the conventional definition.

Mr. Armey. And I understand all the current disaster talk surrounds a decline in growth to 1 percent?

Mr. Miller. Yes. And keep in mind, that is the preliminary figure. As you know, there is a fairly wide range in the subsequent corrections. The figure that just came out, for the first quarter of calendar year 1986, was 3.8. And that was a correction against 2.9, which itself was a correction for the preliminary number which was 3.7, I believe.

The constant or the real GNP average over the past several years has been—for the preliminary number—has been 1.7, something approximating a standard deviation. Two-thirds of the revision to that number have fallen between minus 1.2 and plus 2.8. So there may well be—the subsequent number may well change.

Mr. **Armey**. Of course, when we are talking about $1 trillion, $2 trillion, or whatever, that's relatively minor and frankly—from a scientific point of view—acceptable deviation or error does translate into several billions within the context of Gramm-Rudman.

Mr. **Miller**. Big bucks.

Mr. **Armey**. I have two questions. One, I happen to believe that the fallback position is not only acceptable but commensurate with what responsibilities the people of this Nation have a right to expect their Congress to bear. And I, for one, am perfectly willing to accept that fallback position. I find it difficult to understand why it is not acceptable to you or why you would prefer something different.

Mr. **Miller**. Congressman, it is just my feeling that the automatic provision means that it is more likely that Congress and the President will come together and agree to reduce the deficit over time. With the automatic feature, there is essentially no out. With the fallback mechanism, there is an out.

And as a technical matter—not what I am predicting—but as a technical matter, Congress may simply refuse or fail to produce a joint resolution of sequester or the President might refuse to sign it or to veto—that is to veto a sequester. I do not believe he would. I believe he would sign it.

But there is the problem of an out. And given that there are those outs, I think it is less likely that there would be a resolution for doing something about the deficit.

Mr. **Armey**. Wouldn't that require the Members of Congress individually or the President individually to simply deny reality in the face of open public awareness?

Mr. **Miller**. I think that there would be considerable protest, considerable response on the part of the electorate, to which the Congressmen and at least a third of the Senators this year, in fact a third of the Senators this year would be beholden, but it would be less automatic. I mean, there is an escape hatch for the fallback position that does not exist for the automatic trigger.

Mr. **Boulter**. Isn't it a matter of certainty that we are talking about? In other words, if we have a congressional budget resolution, we have a reconciliation process, we have an appropriation process, we have the snapshot in August and 45 days between that snapshot and the order of October, and we still can't get anything done, where is the certainty to the process?

I agree with what you are saying that people expect us to do our job, but we don't seem to be able to do our job, and it lacks certainty under this procedure. Bill Gray says when we come to October and we need that 15-percent reduction or whatever it is, that he would like to prioritize it. And remember, I introduced a resolution like that last year. But it doesn't get you anywhere. It doesn't get certainty.

Mr. **Armey**. I understand the risks involved, but I believe that the Members will quite accurately perceive the political risks as greater.

One final question, Mr. Chairman.

I am concerned about the pending tax reform legislation, and in particular the double time line. As I am sure you may know, the losses of deductions go into effect in January. They reduce rates in July. Wouldn't that quite possibly precipitate in the short run a significant loss of revenue that could for this first go-round, quite frankly, confound the Gramm-Rudman proposal?

Mr. MILLER. If you were to move up the date of the introduction of the lower rates to January, the same time the loss of the deductions under the current system, there would be a hit, but my understanding is the calculations by the Senate Budget Committee of the Senate bill had a balloon or a bubble of about $23 billion in 1987, as just a technical matter.

So if you moved it up, you would just about eliminate that $23 billion.

Mr. BROOKS. Moving it to when?

Mr. MILLER. The Senate bill is written so that you lose the deductions at the beginning of the year but you gain the lower personal rates at the end of June. If you move them up, the lower personal rates, to the beginning of the year, my understanding is it is about $23 to $25 billion lost revenue. On the other hand, the estimate had been for about a $23 billion bubble vis-a-vis current services revenues for fiscal year 1987, so you would essentially go back to current services.

Now, the question would be then that you would overall not be revenue neutral. In fact, the tax bill would be a loser over the 5-year period.

Mr. ARMEY. Thank you, Mr. Chairman.

Again, I want to express my personal regard for you individually and for your work.

Mr. MILLER. Thank you.

Mr. BROOKS. Thank you, Mr. Armey.

The gentleman from Oklahoma, Mr. Glenn English.

Mr. ENGLISH. Thank you, Mr. Chairman.

I was rather intrigued listening to the discussion between the professional economists with regard to the situation that faces us, and it seemed rather sterile, this discussion.

Mr. MILLER. Now, wait a minute. This is the nicest thing anybody has ever said.

Mr. ARMEY. I can only make a plea that I did my degree at Oklahoma, not A&M.

Mr. ENGLISH. I appreciate that, but in the discussion, it is almost as if it is automatic—these are figures out here that no one really has any control over, these things are happening, we are kind of bystanders—but that is not the case. Certainly in our economy the question of the size of the deficit, all of these factors are determined in large part—not totally, but in large part—by our Government, and certainly by the philosophy that that Government follows.

The chairman earlier referred to the oil situation, the oil import fee, and certainly my State of Oklahoma is hurt as bad, some might even say worse than the State of Texas. Louisiana is in the same shape. A lot of that has to do with Government policy, the policy of the Government in Saudi Arabia, who decided that they are going to break their competitors, drive down the market price until they create enough pain that their OPEC allies will agree to quit cheating. That is Government imposed.

When we look to our own Government to respond to this challenge, this threat by another government against a major segment of our economy, we hear that it is the philosophy of our Government to not get involved, to stand aside.

That brings to mind a year ago, whenever Treasury-I first came out of the Treasury Department, which was going to do away with intangible drilling cost deductions, the depletion allowance, and the Deputy Secretary of the Treasury happened to be an Oklahoman from Tulsa, OK, and a number of my independent oil and gas producers came to Washington to meet with him and talk about what this was going to do, what it was going to mean, how it was going to destroy the economy of the State of Oklahoma and the Southwest, what it was going to mean as far as energy independence was concerned.

The response that these oil and gas producers got was that it was the policy of this administration that if you can produce oil cheaper in Saudi Arabia than you can produce it in Oklahoma, then you guys in Oklahoma ought to be in some other business.

Now, the question I want to ask you is, is that, in fact, a true representation of the philosophy; and second, is it not true that the difficulties that we have got in the oil and gas business, the lack of revenue coming in, the lack of tax revenue, and certainly the same type of problem in agriculture—and I could make the same case and the same type of philosophical approach is being made in agriculture—but do those not have a great bearing over what the gross national product of this Nation is going to be, and does it not have a great bearing with regard to what the size of this deficit is going to be?

Mr. Miller. Let me answer those questions seriatim in reverse order. I think yes, as a general principle it is the position of this administration that supply and demand should determine which products are produced by whom. If there is an opportunity for U.S. consumers to purchase from abroad products more cheaply produced than could be produced at home, they should have a right to do that.

We do have compassion, however, and concern about transitional effects with respect to the oil industry, with respect to farming and other industries that are adversely impacted by events.

The second part of my answer goes to the question of the effects on the gross national product of actions of other governments. You are entirely correct. From time to time actions taken by foreign governments can have an impact on the U.S. gross national product. Trade barriers erected by foreign governments restrict the ability of U.S. producers to sell abroad, and as you know, Clayton Yeutter and Mac Baldrige and others in the administration are working very hard to make sure that those barriers are lowered or eliminated.

There have been so-called unfair trading practices that we have taken issue with by importers, or exporters from foreign countries to the United States.

So my answer is that you are absolutely correct that actions of foreign governments can have an impact on U.S. aggregate economic activity.

Mr. ENGLISH. I want to make certain that I am perfectly clear because I want to quote you correctly. In effect what you are telling me is that the message I have got to take back to the oil producers in Oklahoma and the farmers in Oklahoma is that the most help that they can expect out of this administration is transition, that we are going to help you out of your business.

Mr. MILLER. Well, I don't think I said exactly that because one anticipates demand that may be low this year to rise in the following year. We do have concern over the transitional effects, but basically, ours is not only a free society in terms of individual freedom and freedom of expression, but it is free also in terms of what actions consumers can take and what opportunities they have, and if they can purchase something more cheaply abroad, they have the right to do so.

Mr. ENGLISH. What happened to fairness, though? Doesn't fairness have to be an ingredient? We talk about free trade. Usually when people talk about free trade, they are talking about it being a two-way street, talking about unimpeded trade. That means that the governments of foreign nations are not, in effect, affecting that trade adversely. That gets into the issue of is it fair?

Do you think it is fair for Saudi Arabia to flood the market and drive the price down to the point that—and they have stated—they want to put out of business oil and gas producers in Oklahoma and Texas and Louisiana?

Do you think it is fair for our own Government to provide foreign countries such as Argentina with low interest loans that any of us question will ever be paid back so that, in effect, they can sell their products in the world market cheaper than farmers from Oklahoma or the whole Midwest can do?

Is that fair?

Mr. MILLER. Let me say on the question of fairness, arguably, (a) I think it is fair that consumers have opportunities to purchase at the lowest price. Second, I did indicate issues of fairness—when foreign governments restrain our ability to export abroad, that is unfair, and we have taken issue with that. When foreign governments dump in America, that is unfair, and I have taken issue with that.

Mr. ENGLISH. What about our own Government?

Mr. MILLER. On the question of export subsidies or providing the kinds of financial subsidies, I think the administration on a number of occasions has taken issue with just that sort of thing.

Mr. ENGLISH. Well, it is our Government that is doing it. We just had a few weeks ago the Secretary of the Treasury very proud of the fact that he was able to obtain a $350 million loan for Argentina, and they were going to be able to export $1 billion more in agricultural products than what they are doing now. Now, that undercuts the price of my farmers' products. It means that my farmers aren't going to be selling it. It means my farmers are going out of business.

Now, my farmers can compete against farmers from other parts of the world. They cannot compete against those farmers if they are going to have the assistance, and particularly the backing of the Treasury or the resources of the U.S. Government backing them up. That is what is unfair.

Mr. CONYERS. Will my colleague yield?

Mr. ENGLISH. I will be happy to yield to the gentleman from Michigan.

Mr. CONYERS. I am glad I witnessed this exchange because now I can notify the automobile manufacturers in Detroit that the law of supply and demand obtains at the international level, and all of the world manufacturers of automobiles with government supports, with government help that are already flooding 29 percent of the auto market can just pack it up because as long as any American can buy any foreign car cheaper than an American car, they are going to have that opportunity, which raises only one problem: Who is going to be working to be the consumer to buy the car that can be made cheaper everywhere in the world than in the United States?

I thank my colleague from Oklahoma for engendering this dialog. This is incredible.

Mr. ENGLISH. I thank the gentleman from Michigan. The only advice that I could give him is the same advice that I am giving my constituents. I would suggest they all search for a MacDonald's hamburger franchise. We are all going to be in the hamburger business. That seems to be about the only thing in this Nation that appears to be productive for the future if this continues in this trend.

I thank the Chairman.

Mr. BROOKS. The gentleman from Washington, Mr. Miller.

Mr. JOHN MILLER. Thank you, Mr. Chairman. I am glad we are all still here.

Mr. Director, a question on a different aspect of the implementation of Gramm-Rudman-Hollings. I ask the question of somebody that believes very strongly that the concept of bringing the Federal budget into balance over 5 or 6 years is a sound one, and a good one, and a needed one.

My question is, as I understand it, when you take these snapshots, you look at, on the spending side, you look at the outlays; the actual dollars that are projected to be spent for this year—for next year; is that correct?

Mr. MILLER. Yes.

Mr. JOHN MILLER. Looking at this, looking backward or forward, is it your professional opinion that this is the best criterion, or should the act gear itself to budget authority rather than outlays?

Mr. MILLER. I think even though outlays are fraught with some uncertainty, I think it would be better to focus on outlays. The reason is that when you talk about the deficit, it is determined by outlays, not by budget authority. And what it is that concerns one about the deficit is essentially caused by outlays.

To the extent that the deficit crowds out other investments, it is because of the outlay effect. To the degree that the Federal fiscal deficit leads to and partly explains the trade deficit, it is the outlay difference—or the shortfall between outlays and revenues—that have the effect. So budget authority would be an indirect relation to what it is you are really looking at, whereas, outlays would be a direct relation.

Mr. JOHN MILLER. The reason I ask the question is that we are working through these appropriation bills and this issue keeps coming up. We are on the third or the fourth one in the House. And I can see a pattern developing.

And the pattern is that when the bill comes up from the Appropriations Committee, it is within the budget authority guidelines of the budget resolution. So in that sense, it is fiscally responsible. But on the other hand, they always seem to be considerably over as they hit the floor of the House, the outlay figure that is necessary to meet the target.

And so we get into this. The argument is repeated, and repeated, and repeated, and repeated. The argument given by the budget authority people is, well, this is ultimately what directs spending. And outlays are, you know, what comes from the past years, et cetera, et cetera, et cetera.

Anyway, you are saying, if we want to get control you look at outlays, even though you may be reflecting past years spending decisions in outlays.

Mr. MILLER. Absolutely; and you know, the Senate does that. The Senate in its 302(b)'s, they hold themselves both to a restraint on the budget authority and a restraint on outlays.

In the House, the Appropriations Committees hold themselves to totals on budget authority, but not on outlays. I believe that it would be best to be restrained by outlays as well.

Mr. JOHN MILLER. Ideally, you are saying, we should hold ourselves to both.

Mr. MILLER. Yes.

Mr. JOHN MILLER. Just one or two final questions. On the discretion, I heard you in answer to—I believe it was Congressman Neal, or maybe is was the chairman—say that you do not see any discretion for the Office of Management and Budget when it comes to the implementing of the cuts, if there is sequestration.

Mr. MILLER. That is correct.

Mr. JOHN MILLER. Do you see the discretion in coming up with the numbers?

Mr. MILLER. Yes.

Mr. JOHN MILLER. But, if I understand the process correctly, you come up with a number, CBO comes up with a number. There is compromising, et cetera. After that is done, is there any further discretion for you on the numbers?

Mr. MILLER. Let me play just a completely hypothetical scenario. Suppose that CBO said the deficit shortfall is $20 billion; OMB said it was $15 billion; GAO said it was $17 billion. I would have the discretion to say, no, after looking at your work, CBO and GAO, I am now convinced it is $16 billion.

I would have the discretion to say it is $16 billion. And on that basis of my report, the President would issue the sequester. But once the number 16 is chosen, there is no discretion. It is just arithmetic, and multiplying and dividing to go account by account.

Mr. JOHN MILLER. In the administration's proposal to meet the damage from the Supreme Court decision, you are saying that the original language of Gramm-Rudman about taking the median point between CBO and OMB, that in effect, that has to be altered.

Mr. **Miller**. Yes.

Mr. **John Miller**. You are asking in your solution for you to have the final—albeit, you may give great deference to CBO and GAO and everybody else's numbers—you would have the final authority on the number.

Mr. **Miller**. That is what the Supreme Court said. Or someone carrying out that function——

Mr. **John Miller**. And therefore—last question—when you criticize the fallback provision, I assume your criticism of that would apply to what I understand Senator Eagleton proposed, where he suggested that GAO develop a sequestration order, submit the report to both houses of Congress, each has 3 days to vote it up or down without amendment with only 1 hour debate. The same criticism applies?

Mr. **Miller**. Yes.

Mr. **John Miller**. I have no further questions.

Mr. **Neal**. Will the gentleman yield to me for one quick question?

Mr. **John Miller**. Yes.

Mr. **Neal**. I meant to ask one other question, and it was this. If we, as a result of that August 15 snapshot and slower growth in the economy, find that we are, in fact, $40 billion over our budget target, as required under Gramm-Rudman, do you think it would be good policy for this country to make those $40 billion across-the-board cuts?

Mr. **Miller**. No. Again, this is completely a hypothetical case, but if it turned out there was a $40 billion shortfall, I would much prefer Congress and the President to establish priorities and eliminate the gap, rather than go through the across-the-board sequester.

Mr. **Neal**. Yes, sir, I understand. You already said that and I agree with you, by the way. But let us say for some reason or another that Congress and the President cannot get together on that, and we then find ourselves operating under Gramm-Rudman. We have got a $40 billion shortfall, and under law you are required to make the across-the-board cuts.

My question now really is, would that be good economic policy for the country?

Mr. **Miller**. Yes, I believe it would be. As painful as it would be, I think it would have a certain disciplining effect for the future.

You may be asking—and correct me if I am wrong—would the fiscal effect of these cuts be so severe as to disrupt economic activity. Again, in a $4 trillion economy, a drop of spending of $40 billion—while $40 billion is a very large amount of money—I do not think would have that perceptible an impact. It is certainly not an impact that could not be offset by slightly more expansionary monetary policy, if need be.

Mr. **Neal**. What did you say? We are about a $3 trillion——

Mr. **Miller**. $4 trillion economy.

Mr. **Neal**. $4 trillion economy.

Mr. **Miller**. I mean, if we did that, for example, I would urge the Fed to be more expansionary in its monetary policy than it had been earlier to offset this. But I do not think it would be—I think you would have to get up into the $30, $40 billion range before you would really need to take explicit action.

Mr. **Neal**. I thank you.

Mr. **Brooks**. Thank you very much. Thank you, Mr. John Miller.

And thank you very much, Mr. Director Miller. You have been a very forthright and candid witness.

And we have enjoyed having you.

Mr. **Miller**. Thank you. It has been my pleasure, my honor.

Mr. **Brooks**. I look forward to hearing your deficit estimates shortly.

Mr. **Miller**. Yes, sir.

Mr. **Brooks**. In the meantime, within the next few weeks, Congress has got to decide whether we should give to someone else or keep the power to control the Federal purse strings for the next 5 years. This is a bottom line, fundamental question we have been discussing today from 10 a.m. this morning until 6:20 p.m. this afternoon.

We have heard from the Comptroller General Bowsher, who used to occupy the central position in the Gramm-Rudman-Hollings trigger mechanism; from the Budget Committee Chairman Gray, who currently occupies such a position. We have also heard from the OMB Director Miller, who has publicly expressed his desire to become the central player in this trigger mechanism.

While contemplating the options mentioned, we ought to keep in mind that the whole Gramm-Rudman-Hollings deficit reduction process is founded on economic forecasts, which are far from precise.

Last year while this law was being debated, the deficit for fiscal year 1986 was predicted to be $192 billion. As a result, it was determined that a $20 billion sequestration would be adequate to reach our target deficit figure of $172 billion. The law went into effect 5 months into the fiscal year, so a proportionate part—$11.7 billion to be exact—of the $20 billion was actually sequestered in March.

And now, even after that sequestration, the actual deficit for fiscal year 1986 is turning out to be on the order of $220 billion, by general consensus. Almost $30 billion more than originally predicted just a few months ago.

When Congress passed the fiscal year 1987 budget resolution a few weeks ago, it met the $144 billion deficit target with some room to spare. Since then, however, the economy has deteriorated to a point where it now looks as if we may have to cut an additional $10 or $20 billion from Federal programs or risk triggering a second round of Gramm-Rudman-Hollings sequestration cuts in October that could run as high as $30 or $40 billion.

I think it is increasingly clear that Congress has enacted a law that is full of snakepits and quicksand. The Supreme Court has already saved us from ourselves once with respect to this law. We would be most remiss, in my judgment, if we again try to give away our basic budgetary responsibilities.

The hearing is adjourned, subject to the call of the Chair.

[Whereupon, at 6:21 p.m., the committee adjourned, to reconvene subject to the call of the Chair.]

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